

Avalon Pharma

Middle East Pharmaceutical Industries Company «Avalon Pharma»

Middle East Pharmaceutical Industries Company, a Saudi joint stock company under Commercial Registration No. (1010150538) issued from the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G).

Offering of six million (6,000,000) ordinary Shares, representing 30% of the Company's capital, through a public Offering, at an Offer Price of (SAR 82) eighty two Saudi riya

Offering Period commences on Tuesday 18/07/1445H (corresponding to 30/01/2024G) and ends on Thursday 20/07/1445H (corresponding to 01/02/2024G)

Financial Advisor and Bookrunner

الدخيل
Aldukheil

Lead Manager and Underwriter

الإئماء للاستثمار
alinma investment

SNB

Receiving Agents

مصرف الئماء
alinma bank

Subscription to the Offer Shares shall be restricted to the following two tranches of investors:

Tranche (A) Participating Parties: This tranche comprises the parties that are entitled to participate in the book building process in accordance with the Book Building Instructions issued by the Capital Market Authority («the Authority») pursuant to Resolution No. 2-94-2016 dated 15/10/1437H (corresponding to 20/07/2016G) and amended by the Authority's Board Resolution No. 1-103-2022 dated 02/03/1444H (corresponding to 28/09/2022G) («Instructions of Book Building») (referred to those categories collectively hereinafter as «Participating Parties» and each as «Participating Party») (see Section No. (1) «Terms and Definitions» of this Prospectus). (for further details, please see Section (1) «Terms and Definitions» of this Prospectus). Participating Parties will initially be allocated six million (6,000,000) Shares, representing one hundred percent (100%) of the total Offer Shares. The final allocation will take place after the end of the individual subscription period. In the event that Individual Subscribers (Identified as Tranche (B) below) subscribe for the full number of Offer Shares allocated to them, the Bookrunner shall have the right to reduce the number of shares allocated to the participating parties to (5,400,000) five million four hundred thousand offer shares as a minimum, representing 90% of the Offering Shares. The number and percentage of Offering Shares that will be allocated to the Participating Parties will be determined by the Financial Advisor, in consultation with the Company, using the discretionary allocation mechanism. Certain Participating Parties may not be allocated any shares to, according to what the Company and the Financial Advisor deem appropriate.

Tranche (B) Individual Subscribers: This tranche comprise Saudi natural persons, including any Saudi female divorcee or widow with minor children from a marriage to a non-Saudi individual, who may subscribe in the names of her minor children, on the condition that she proves that she is a divorcee or widow and the mother of the minor children, any non-Saudi natural person who is resident in KSA or GCC nationals, in each case who have a bank account and are entitled to open an investment account with one of the Receiving Agents (collectively referred to as the «Individual Subscribers»), and each as an «Individual Subscriber». Subscription by a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature is proven to have occurred, the law shall be enforced against the applicant. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted. A maximum of six hundred thousand (600,000) Shares, representing ten percent (10%) of the total Offer Shares, shall be allocated to Individual Subscribers. If Individual Subscribers do not subscribe for the full number of Offer Shares allocated to them, the Bookrunner shall have the right to reduce the number of shares allocated to them in proportion to the number of Shares to which they subscribed.

The Company's existing shareholders (collectively referred to as «Existing Shareholders») and individually as «Existing Shareholder» (each referred to as «Shareholder») of the Company's shares prior to the Offering of the Offer Shares will be sold by the current shareholders (collectively referred to as «Selling Shareholders» and individually as «Selling Shareholder») (see Section (5-1) «The Company's Ownership Structure Before and After the Offering» of this Prospectus). After completion of the Offering, the current shareholders will collectively own 70% of the Company's shares and thus retain a controlling interest in the Company. The Offering Proceeds will be distributed after deducting the Offering expenses («Net Offering Proceeds») to the Selling Shareholders, and the Company will not receive any part of the net proceeds of the offering (see Section No. (8) «Use of the Offering Proceeds» of this Prospectus). The Underwriter has pledged to fully cover the offering (see Section (15) «Underwriting» of this Prospectus).

The Company has (4) four Substantial Shareholders (each of whom owns 5% or more) (collectively referred to as «Substantial Shareholders» and individually as «Substantial Shareholder») as of the date of this Prospectus: Tabbaa National Holding Company owns 60.28%, Talal Youssef Mahmoud Zahid 21.00%, Ali Shaheer Ahmad Al-Tabbaa 6.50%, and Faisal Shaheer Ahmad Al-Tabbaa 6.40% of the Company's shares. After the Offering, Tabbaa National Holding Company will own 42.18%, Talal Youssef Mahmoud Zahid 14.70%, Ali Shaheer Ahmad Al-Tabbaa 4.62%, and Faisal Shaheer Ahmad Al-Tabbaa 4.48% of the Company's shares (see Section (5-2) «Substantial Shareholders who own 5% or more of the Company's shares» in this Prospectus), noting that Substantial Shareholders are prohibited from disposing of their shares for a period of (6) six months («Lock-up Period») from the trading start date in the Company's shares on the Saudi Stock Exchange («Saudi Tadawul» or «the Exchange»). After the end of the Lock-up Period, Substantial Shareholders have the right to dispose of their shares without the need to obtain prior approval of the Authority.

The offering period begins on Tuesday 18/07/1445H (corresponding to 30/01/2024G) and continues for a period of (3) three working days, including the last day of closing the subscription, which is the end of the day Thursday 20/07/1445H (corresponding to 01/02/2024G) («the Offering Period») during which applications to subscribe to the Offer Shares may be submitted by Individual Subscribers to any of the Receiving Agents (collectively referred to as «Receiving Agents») and individually as the «Receiving Agent») or via the Internet, telephone banking, or ATM of the Receiving Agents, or through any other electronic channels provided by the Receiving Agents to its customers, during the Offering Period (see Section (17-3-2) «Subscription by Individual Subscribers» of this Prospectus). Participating Parties can subscribe to the Offer Shares through the Bookrunner during the Book Building process, which takes place before offering the shares to Individual Subscribers (see Section No. (17-3) «Method and Conditions of Subscription for Each Party of Subscribers» of this Prospectus). Each of them will have the opportunity to study the investment opportunity and view any additional information available through a data room in which all documents referred to in Section No. (18) «Documents Available for Inspection» of this Prospectus will be displayed.

Each individual subscriber who subscribes to the Offer Shares must file an application to subscribe to a minimum (10) ten Offer Shares, and a maximum of (600,000) six hundred thousand Offer Shares, noting that the minimum allocation for each individual Subscriber is (10) Ten Offer Shares. The remainder of the Offer Shares (if any) will be allocated on a pro rata basis based on the ratio of what each individual subscriber requested to the total shares required to be subscribed for. If the number of Individual Subscribers exceeds (60,000) sixty thousand subscribers, the Company does not guarantee the minimum allocation, and the allocation will be made according to the proposal of the Company and the Financial Advisor. The subscription surplus (if any) will be returned to Individual Subscribers without any commissions or deductions from the Receiving Agents. The final allocation process will be announced no later than Thursday 27/07/1445H (corresponding to 08/02/2024G) and the refund of the excess subscription amount (if any) will be announced no later than Wednesday 04/08/1445H (corresponding to 14/02/2024G) (see Section «Key Dates and Subscription Procedures» on page (xvii) and Section No. (17) «Information related to the Shares and Offering Terms and conditions» of this Prospectus).

All the Company's shares are ordinary of one class, and the share does not give its holder any preferential rights. Every shareholder («Shareholder»), regardless of the number of shares he holds, has the right to attend and vote at the meetings of the general assembly of shareholders («General Assembly»). Each shareholder also has the right to delegate any other shareholder, other than members of the Company's Board of Directors or employees, to act on his behalf in attending the General Assembly meetings and voting on its decisions. The Offer Shares are entitled to any dividends announced by the Company from the date of this Prospectus and the following fiscal years (see Section No. (7) «Dividends Policy» of this Prospectus).

Prior to this Offering, the Company's shares had never been listed or traded on any stock exchange, whether inside or outside the Kingdom of Saudi Arabia. The Company has filed an application with the Capital Market Authority of the Kingdom of Saudi Arabia (the Authority) to register and offer its shares in accordance with the Rules on the Offering of Securities and Continuing Obligations. It has also submitted an application to list the shares on the Saudi Exchange of Saudi Tadawul Company (Saudi Exchange) in accordance with the Listing Rules, and all required documents have been submitted to the competent authorities, and all relevant requirements have been fulfilled, for obtaining all approvals related to the offering process, including this Prospectus. It is expected that trading of shares in the financial market will begin soon after the completion of the share allocation process, the return of the surplus, and the fulfillment of all relevant regulatory requirements (see the «Key Dates and Subscription Procedures» section on page (xvii) of this Prospectus). After registering the shares with the Authority and listing them on the Exchange, citizens of the Kingdom, those with legal residence in Saudi Arabia, and Gulf investment funds, and citizens of the Gulf Cooperation Council countries will be allowed to trade in shares. The foreign investor («Foreign Investor») will also be able to trade in the Company's shares under the rules governing the investment of foreign financial institutions (see Section (1) «Terms and Definitions» of this Prospectus) in shares. Strategic foreign investors are also entitled to trade in Shares in accordance with the instructions regulating the ownership of foreign strategic investors (see Section No. (1) «Terms and Definitions» of this Prospectus). Non-Gulf individuals residing outside the Kingdom and non-Gulf institutions registered outside the Kingdom («Foreign Investors») also have the right to invest indirectly in shares by acquiring the economic benefit of the shares by entering into swap agreements (SWAP) through one of the licensed capital market institutions by the Authority («Capital Market Institutions») to purchase shares listed on the financial market and trade in them for the benefit of foreign investors. It should be noted that under the swap agreements (SWAP), capital market institutions will be registered as statutory owners of those shares.

The «Important Notice» section on page (1) and Section No. (2) «Risk Factors» contained in this Prospectus must be read and studied carefully by those wishing to subscribe before making any decision to invest in the Offer Shares.

Middle East Pharmaceutical Industries Company («the Company», «Issuer» or «Avalon Pharma») was established as a limited liability company under the name «Middle East Chemical Products Factory Company» pursuant to the Articles of Association signed on 04/03/1419H (corresponding to 29/06/1998G) and Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). The Company's capital, upon its establishment, amounted to (500,000) five hundred thousand Saudi riya

In 2022G, the Company was converted into a closed joint stock company pursuant to the Ministry of Commerce Resolution No. (962) dated 13/09/1443H (corresponding to 14/04/2022G) and pursuant to Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). In 2023G, on 25/09/1444H (corresponding to 16/04/2023G), shareholder Ahmad Shaheer Ahmad Al-Tabbaa assigned all of his shares in the Company, amounting to (12,050,000) twelve million and fifty thousand shares, to Tabbaa National Holding Company, and on 25/09/1444H (corresponding to 16/04/2023G), shareholder Faisal Suleiman Mohammed Al-Jamaan assigned all of his shares in the Company, totaling (75,000,000) seven hundred and fifty thousand shares, of which (500,000) five hundred thousand shares assigned to Durat Al-Wadda Investment Company, and (250,000,000) two hundred and fifty million shares assigned to Durat Al-Faisal Investment Company. This was documented in the Company's electronic shareholder register issued by the Ministry of Commerce on 11/10/1444H (corresponding to 01/05/2023G). The Company's current capital is (200,000,000) two hundred million Saudi riya

The initial public offering («the Offering») consists of offering (6,000,000) six million ordinary shares (collectively referred to as the «Offer Shares») and individually as the «Offer Share») at an offering price of (82) eighty two Saudi riya per share, with a nominal value of (10) ten Saudi riya per share («the Offer Price»). The Offering Shares in their entirety represent 30% of the Company's capital.

This Prospectus includes information provided as part of the application for registration and offer of securities, according to the Rules on the Offer of Securities and Continuing Obligations of the Capital Market Authority in the Kingdom of Saudi Arabia («the CMA») or the «Authority») and an application for listing of securities on the Saudi Stock Exchange. The Directors, whose names are included in this Prospectus, and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable inquiries, that the best of their knowledge and belief, there are no other facts, the omission of which would make any statement herein misleading. Neither the CMA nor the Exchange shall assume any responsibility for the contents of this Prospectus or make any representations as to its accuracy or completeness and they expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus.

This Prospectus is dated 22/05/1445H (corresponding to 06/12/2023G)

(This Prospectus is an unofficial English translation of the official Arabic Prospectus and is provided for information purpose only. The Arabic Prospectus Published on the CMA's website (www.cma.org.sa) remains the only official, legally binding version and shall prevail in the event of any conflict between the two languages)

 **Avalon** Pharma



Important Notice

This prospectus provides complete detailed information about Middle East Pharmaceutical Industries Company and the shares offered for subscription in the Main Market. Investors who apply to subscribe to the offered shares will be treated on the basis that their applications are based on the information contained in this Prospectus, copies of which can be obtained from the websites of the Company (www.avalonpharmaceutical.com), the Financial Advisor (www.aldukheil.com.sa), Capital Market Authority (www.cma.org.sa), Saudi Stock Exchange «Tadawul» (www.saudiexchange.sa), or the Lead Manager (www.alinmainvestment.com). The Financial Advisor, «Aldukheil Financial Group Company» will also announce on the Saudi Stock Exchange website «Tadawul» about publishing the Prospectus and making it available to investors during the period specified in accordance with the Rules on the Offer of Securities and Continuing Obligations (within a period of no less than (14) days before the listing) and any other developments.

This Prospectus contains information submitted within the application for registration and offering of securities in accordance with the requirements of the Rules on the Offer of Securities and Continuing Obligations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (referred to as the «Authority») and the application for listing of securities in accordance with the requirements of the Listing Rules of the Saudi Stock Exchange. The Directors whose names appear in this Prospectus, jointly and individually, bear full responsibility for the accuracy of the information contained in this Prospectus, and confirm to the best of their knowledge and belief, after conducting all possible studies and to a reasonable extent, and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement herein misleading. Neither the CMA nor the Exchange shall assume any responsibility for the contents of this Prospectus or make any representations as to its accuracy or completeness and they expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus. Those wishing to purchase the shares offered under this Prospectus must verify the accuracy of the information related to the shares being offered. If they cannot understand the contents of this Prospectus, they should consult a licensed Financial Advisor.

The Company has appointed Aldukheil Financial Group as a Financial Advisor («Financial Advisor») and the Bookrunner («Bookrunner») and Alinma Investment Company as the Lead Manager («Lead Manager») and Underwriter («Underwriter») in relation to the Offering of shares indicated in this Prospectus. (see Section (13) «Underwriter» of this Prospectus).

Although the Company has carried out all reasonable studies to verify the accuracy of the information contained in this Prospectus on the date of its issuance. However, a large portion of the information contained about the market and the sector in which the Company operates was obtained from external sources. Although neither the Company nor the Selling Shareholders, members of the Board of Directors or any of the advisors whose names appear on pages (vii) and (viii) of this Prospectus have any reason to believe that the information provided about the market and sector is considered materially inaccurate, but this information has not been verified independently and therefore no commitment or representation can be made as to its accuracy or completeness.

The information contained in this prospectus as at the date of issuance is subject to change and in particular the Company's financial position and the value of the Shares may be adversely affected as a result of future developments relating to inflation, interest rates, taxes or any other economic or political factors beyond the Company's control (see Section (2) «Risk Factors» of this Prospectus). This prospectus or any oral, written or printed information shall not be construed or interpreted in relation to the Offer Shares or Interpret or rely on, in any way, as a promise, confirmation or acknowledgment of any future profits, revenues, results or events.

This Prospectus may not be considered as a recommendation on the part of the Company, members of its Board of Directors, Selling Shareholders, or any of its advisors to participate in the subscription process for the offered shares. The information contained in this Prospectus is of a general nature and has been prepared without taking into account the individual investment objectives, financial conditions or investment needs of persons wishing to invest in the Offering Shares. Each recipient of this Prospectus, before making a decision to invest, bears the responsibility of obtaining professional advice from a Financial Advisor licensed by the Authority regarding subscription to the Offer Shares, in order to evaluate the suitability of this investment and the information contained in its for his objectives, conditions and financial needs, including the benefits, and risks associated with investing in Offer Shares. Investing in the Offering Shares may be suitable for some investors but not others, and potential investors should not rely on the decision and vision of another party to invest or not to invest as a basis for the study they are supposed to undertake regarding their opportunity to invest or on the individual circumstances of those investors.

Subscription to the Offer Shares is limited, in accordance with the requirements of the Rules on the Offer of Securities and Continuing Obligations, to two categories of investors:

Tranche (A): Participating Parties: This Tranche includes the categories that are entitled to participate in the Book Building process in accordance with the instructions for Book Building (see Section No. (1) «Terms and Definitions» of this Prospectus).



Tranche (B) Individual Subscribers: This tranche comprise Saudi natural persons, including any Saudi female divorcee or widow with minor children from a marriage to a non-Saudi individual, who may subscribe in the names of her minor children, on the condition that she proves that she is a divorcee or widow and the mother of her minor children, any non-Saudi natural person who is resident in KSA or GCC nationals, in each case who have a bank account and are entitled to open an investment account with one of the Receiving Agents. Subscription by a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature is proven to have occurred, the law shall be enforced against the applicant. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted.

It is expressly prohibited to distribute this Prospectus or sell the Offer Shares in any country other than the Kingdom, except for the category of foreign financial institutions and/or foreign investors through the conclusion of swap agreements (SWAP). The Company, the Selling Shareholders, and the Financial Advisor request that the recipients of this Prospectus review all regulatory restrictions related to the Offering or sale of the Offer Shares and observe compliance with them. All Individual Subscribers and participating parties must read this Prospectus in its entirety and obtain professional advice from a Financial Advisor licensed by the Authority and from their lawyers, accountants, and professional advisors regarding the legal, tax, regulatory, and economic considerations related to their investment in the Offer Shares, and they will personally bear the fees associated with that consultation. Likewise, the Company, the Selling Shareholders, or the Financial Advisor cannot provide any guarantees in terms of realizing profits.

Overview of the Market and Sector

The information contained in Section No. (3) «**Overview of the Market and Sector**» is derived from the market study report prepared by Euromonitor International Limited («**Market Study Advisor**») exclusively for the Company between February and April 2023G. The Market Study Advisor based in London, United Kingdom. For more details about the market Advisor, please visit his website (www.euromonitor.com).

Neither the Market Advisor nor any of its affiliates, partners, shareholders, directors or relatives own any shares or any interest of any kind in the Company. As of the date of this Prospectus, the Market Advisor has given, but has not withdrawn, its written consent to the use of its name, logo, market information and data provided by it to the Company in the manner set forth in this Prospectus.

The Directors believe that the information contained in this Prospectus obtained from other sources, including the market study report prepared by the Market Study Advisor, are reliable information in themselves and can be relied upon, but this information has not been independently verified by the Company, its directors, advisors (except the Market Study Advisor) or selling shareholders. Therefore, can give no warranty as to its accuracy, validity or completeness.

Financial Information

The Company audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022, and the accompanying notes attached thereto, and the reviewed consolidated financial statements for the six-month periods ending on June 30, 2022 and 2023, and the notes attached thereto, were prepared in accordance with the International Financial Reporting Standards (IFRS) approved in the Kingdom of Saudi Arabia and other standards and issuances approved by the Saudi Organization for Chartered and Professional Accountants (SOCPA). The consolidated financial statements were audited for the fiscal years ending on December 31, 2020, 2021, and 2022, and the reviewed consolidated financial statements for the six-month periods ending on June 30, 2022 and 2023, were reviewed by KPMG («**The Auditor**»). These financial statements have been included in Section No. (19) «**The Financial Statements and Auditors Report**» of this Prospectus. The Company publishes its financial statements in Saudi Riyals.

Some of the financial and statistical information contained in this Prospectus has been rounded to the nearest integer. Accordingly, if the numbers contained in the tables are summed, their sum may not correspond to what was mentioned in this Prospectus.

Forecasts and Forward-looking Statements

The forecasts set forth in this Prospectus have been prepared on the basis of assumptions based on Company information according to its market experience, as well as on publicly available market information. Future operating conditions may differ from the assumptions used and consequently, no representation or warranty is made with respect to the accuracy or completeness of any such forecasts. The Company confirms that, to the best of its knowledge, statements have been made hereunder following the required due diligence

Certain statements in this Document constitute «**Forward-looking statements**». Such statements can generally be identified by their use of forward-looking words such as «**intends**», «**plans**», «**estimates**», «**believes**», «**expects**», «**anticipates**», «**may**», «**will**», «**should**», «**expected**», «**would be**» or the negative thereof or other variations of such terms or comparable terminology. These forward-looking statements reflect the current views of the Company with respect to future events but are not a guarantee of future performance. Many factors could cause the actual results, performance, or achievements of the Company to be significantly different from any future results, performance or achievements that may be expressed or implied. Some of the risks and factors that could have such an effect are described in more detail in other sections thereof. (See Section (2) «**Risk Factors**» of this Prospectus). Should any of these risks or uncertainties materialize or any underlying assumptions prove to be incorrect or inaccurate, the Company actual results may vary materially from those described in this Prospectus.

Taking into account the requirements of the rules on offering securities and continuing obligations, the company is obligated to submit a supplementary prospectus to the Authority if it becomes aware at any time after the approval of this prospectus by the Authority and before the completion of the offering of any of the following: (1) the existence of an important change in material matters contained in the prospectus or any document required under the Rules on the Offer of Securities and Continuing Obligations, or (2) the emergence of any significant matters that should have been included in the prospectus. Except for these two cases, the company does not intend to update or amend any information related to the sector and market included in this Prospectus, whether as a result of new information, future events, or otherwise. As a result of these risks, uncertainties and estimates, the future events, conditions and expectations discussed in this prospectus may not occur as the Company expects or may not occur at all. Accordingly, subscribers should examine all future statements in the light of these interpretations and not rely primarily on these forward-looking statements.

Company's Directory

Board of Directors

Name	Position	Capacity	Nationality	Age	Direct Ownership Percentage		Indirect Ownership Percentage*		Date of Hiring
					Before Offering	Post Offering	Before Offering	Post Offering	
Ahmad Shaher Ahmad Al-Tabbaa	Chairman of Board of Directors	Non-executive/ Non-independent	Saudi	52	-	-	30.7275%	21.5093%	09/09/1443H (corresponding 10/04/2022G)
Hisham Mohammed Mahmoud Attar	Deputy Chairman of the Board	Non-executive/ independent	Saudi	42	-	-	-	-	28/02/1445H (corresponding 13/09/2023G)
Mohammed Maher MohammedLotfi Al-Ghannam	Member of the Board of Directors and Managing Director	Executive/ Non-independent	Saint Kitts and Nevis	43	-	-	-	-	09/09/1443H (corresponding 10/04/2022G)
Faisal Suleiman Mohammed Al-Jamaan	Member of the Board of Directors	Non-executive/ independent	Saudi	71	-	-	2.50%	1.75%	09/09/1443H (corresponding 10/04/2022G)
Omar MohammedSaeb Abdul Qader Al-Jaroudi	Member of the Board of Directors	Non-executive/ independent	Saudi	62	-	-	-	-	13/08/1444H (corresponding 05/03/2023G)

* The indirect ownership of Mr. Ahmad Shaher Ahmad Al-Tabbaa resulted from his direct ownership of 51.00% in Tabbaa National Holding Company, which owned 60.25% of the shares of the Middle East Pharmaceutical Industries Company before the Offering, and will own 42.175% after the Offering. The indirect ownership of Mr. Faisal Suleiman Mohammed Al-Jamaan resulted from his direct ownership of 100.00% in Durrat Al-Wadaa Investment Company, which owned 2.50% of the shares of the Middle East Pharmaceutical Industries Company before the Offering, and will own 1.75% after the Offering.

- Members of the Board of Directors, Mr. Ahmad Shaher Ahmad Al-Tabbaa, Mr. Mohammed Maher MohammedLotfi Al-Ghannam, and Mr. Faisal Suleiman Mohammed Al-Jamaan were appointed for the current term by the Company's transformational general assembly held on 09/09/1443H (corresponding to 10/04/2022G) for a period of (4) four years.
- Member of the Board of Directors, Mr. Omar MohammedSaeb Abdul Qader Al-Jaroudi, was appointed by the Extraordinary General Assembly held on 13/08/1444H (corresponding to 05/03/2023G) until the end of the current term of the Board of Directors.
- Mr. Hisham Mohammed Mahmoud Attar, a member of the Board of Directors, was appointed by the Extraordinary General Assembly held on 28/02/1445H (corresponding to 13/09/2023G) until the end of the current term of the Board of Directors.
- The indicators of independence for members of the Board of Directors were determined based on the Corporate Governance Regulations issued by the Capital Market Authority, which are:
 1. if he/she holds five percent or more of the shares of the Company or any other company within its group; or is a relative of who owns such percentage.
 2. if he/she is a relative of any member of the Board of the Company, or any other company within the Company's group;
 3. if he/she is a relative of any Senior Executive of the Company, or of any other company within the Company's group;

4. if he/she is a Board member of any company within the group of the Company for which he/she is nominated to be a Board member.
5. if he/she is an employee or used to be an employee, during the preceding two years, of the Company or a company within its group, or if he/she held a controlling interest in the Company or any party dealing with the Company or any company within its group, such as external auditors or main suppliers during the preceding two years.
6. if he/she has a direct or indirect interest in the businesses and contracts executed for the Company's account.
7. if the member of the Board receives financial consideration from the Company in addition to the remuneration for his/her membership of the Board or any of its committees exceeding an amount of (SAR 200,000) or 50% of his/her remuneration of the last year for the membership of the board or any of its committees, whichever is less.
8. if he/she engages in a business where he competes with the Company or conducting businesses in any of the company's activities.
9. if he/she served for more than nine years, consecutive or inconsecutive, as a Board member of the Company.

Company's Registered Address**Middle East Pharmaceutical Industries Company**

Second Industrial City, Riyadh

P.O. Box 3800 Riyadh 14331

Kingdom of Saudi Arabia

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Fax: +966 11 2654723

Website: www.avalonpharmaceutical.com

Email: info@avalon.com.sa

**Company's First Representatives****Mohammed Maher MohammedLotfi Al-Ghannam**

Managing Director and CEO

Address: Sulaymaniyah District, Riyadh

P.O. Box 4180 Riyadh 11491

Kingdom of Saudi Arabia

Tel: +966 11 8365000 (Ext. 3330)

Fax: +966 11 4629288

Website: www.avalonpharmaceutical.com

Email: maher@avalon.com.sa

Company's Second Representatives**Khaled MohammedAdnan Qasim Abu Al-Rub**

Executive CFO

Address: Sulaymaniyah District, Riyadh

P.O. Box 4180 Riyadh 11491

Kingdom of Saudi Arabia

Tel: +966 11 8365000 (Ext. 2251)

Fax: +966 11 4629288

Website: www.avalonpharmaceutical.com

Email: k_aburub@avalon.com.sa

Secretary of the Board of Directors**Ammar Mamoun Abdel Wahab Al-Hajjah**

Address: Sulaymaniyah District, Riyadh

P.O. Box 4180 Riyadh 11491

Kingdom of Saudi Arabia

Tel: +966 11 8365000 (Ext. 2228)

Fax: +966 11 4629288

Website: www.avalonpharmaceutical.com

Email: Ammar@avalon.com.sa

Stock Exchange**Saudi Stock Exchange (Saudi Tadawul)**

Unit No: 15, King Fahd Road - Olaya ,Riyadh

P.O. Box 6897 Riyadh 12211 – 3388

Kingdom of Saudi Arabia

Tel: +966 920001919

Fax: +966 11 2189133

Website: www.saudiexchange.sa

Email: csc@saudiexchange.sa



Depository Center**Securities Depository Center Company (Edaa)**

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Fax: +966 11 2189133
Website: www.edaa.com.sa
Email: cc@edaa.com.sa

**Advisors****Financial Advisor and Bookrunner**

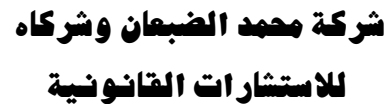
Aldukheil Financial Group
Naeem Bin Hammad Street, Ministries District, Riyadh
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Kingdom of Saudi Arabia
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Website: www.aldukheil.com.sa
Email: info@aldukheil.com.sa

**Lead Manager****Alinma Investment Company**

Al Anoud Tower 2, King Fahd Road, Riyadh
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**Legal Advisor****Mohammed Al-Dabaan and Partners Legal Consultations Company**

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P.O. Box 245555, Riyadh 11312
Kingdom of Saudi Arabia
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Tel: +966 11 4844448
Fax: +966 11 2816611
Website: www.aldhabaan.eversheds.com
Email: capitalmarkets@aldhabaan-es.com



Financial Due Diligence Advisor**PricewaterhouseCoopers, certified public accountants**

King Fahd Road, Riyadh
P.O. Box. 8282 Riyadh 11482
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**Auditor****KPMG Professional Services**

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**Market Study Advisor****Euromonitor International Limited**

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Fax: +44 20 7608 3149
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Note: All of the above-mentioned advisors and the Company's Auditor have given their written consent to refer to their names, logos and statements in this Prospectus in accordance with the form and context appearing therein, and this consent has not been withdrawn as of the date of this Prospectus. It should be noted that all of these entities, their employees, or any of their relatives do not own shares or any interest of any kind in the Company.

Underwriter

Alinma Investment Company

Al Anoud Tower 2, King Fahd Road, Riyadh
P.O. Box. 55560 Riyadh 11544
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الإنماء للاستثمار
alinma investment 

Receiving Agents

Alinma Bank

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مصرف الإنماء
alinma bank 

Saudi National Bank

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Offering Summary

This Offering Summary is intended to provide a brief overview of the information contained in this Prospectus. As such, it does not contain all of the information that may be important to potential investors. Accordingly, this summary must be read as an introduction to this Prospectus, and potential investors should read this entire Prospectus in full. Any decision by potential investors to invest in the Offer Shares must be based on a consideration of this Prospectus as a whole. In particular, it is important to carefully consider the «Important Notice» and Section (2) «Risk Factors» prior to making any investment decision in relation to the Offer Shares.

Summary

Issuer's name, description and information on its incorporation

Middle East Pharmaceutical Industries Company was established as a limited liability company under the name «Middle East Chemical Products Factory Company» pursuant to the Articles of Association signed on 04/03/1419H (corresponding to 29/06/1998G) and Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). The Company's capital, upon its establishment, amounted to (500,000) five hundred thousand Saudi riyals, divided into (500) five hundred ordinary shares of equal value, each of which at (1,000) one thousand Saudi riyals. In 2001G, the partner Hani Bashir Abdul Hamid Al-Azm assigned his entire shares in the Company, amounting to (150) one hundred and fifty shares, to Shaher Ahmad Shaher Al-Tabbaa, and the Company's capital was increased from (500,000) five hundred thousand Saudi riyals to (1,500,000) one million five hundred thousand Saudi riyals. The nominal value of the share was modified from (1,000) one thousand Saudi riyals to (3,000) three thousand Saudi riyals, so that the total number of shares became (500) five hundred ordinary shares of equal value, each of which at (3,000) three thousand Saudi riyals. The increase in capital amounting to (1,000,000) million Saudi riyals was effected by cash deposits in the Company's accounts. This was documented under the amended Articles of Association dated 08/01/1422H (corresponding to 02/04/2001G). In 2006G, the partner Ahmad Shaher Ahmad Al-Tabbaa assigned (25) twenty-five of his shares in the Company to Abdullah Saleh Yousuf Yassin, and the partner Shaher Ahmad Shaher Al-Tabbaa assigned his entire shares in the Company, amounting to (150) one hundred and fifty shares, to each of Haitham Mohieddin Khairy Al-Jawhari under (50) fifty shares, Faisal Shaher Ahmad Al-Tabbaa (37.5) thirty-seven and a half shares, Ali Shaher Ahmad Al-Tabbaa (37.5) thirty-seven and a half shares, and Abdullah Saleh Yusuf Yassin (25) twenty-five shares. . This was documented under the amended Articles of Association dated 12/12/1426H (corresponding to 12/01/2006G). In 2006G, the Company's name was changed from «Middle East Chemical Products Factory Company» to «Middle East Pharmaceutical Industries Company», and this was documented under the amended Articles of Association dated 07/11/1427H (corresponding to 28/11/2006G). In 2008G, the nominal value of the share was amended from (1,000) one thousand Saudi riyals to (150) one hundred and fifty Saudi riyals, so that the total number of shares became (10,000) ten thousand ordinary shares of equal value, the value of each share being (150) one hundred and fifty Saudi riyals. The partner Ahmad Shaher Ahmad Al-Tabbaa assigned (800) eight hundred of his shares in the Company to Al-Baqa Comprehensive Marketing and Trade Company, partner Abdullah Saleh Yousuf Yassin assigned (120) one hundred and twenty of his shares in the Company to Faisal Suleiman Mohammed Al-Jamaan, partner Haitham Mohieddin Khairy Al-Jawhari assigned (95) ninety-five of his shares in the Company to Al-Baqa Comprehensive Marketing and Trade Company, and (5) five of his shares in the Company to Faisal Suleiman Mohammed Al-Jamaan, and the partner Faisal Shaher Ahmad Al-Tabbaa assigned (90) ninety of his shares in the Company to Al-Baqa Comprehensive Marketing and Trade Company, and partner Ali Shaher Ahmad Al-Tabbaa assigned ninety (90) of his shares in the Company to Al-Baqa Comprehensive Marketing and Trade Company. This was documented under the amended Articles of Association dated 11/03/1429H (corresponding to 19/03/2008G). In 2009G, the Company's capital was increased from (1,500,000) one million five hundred thousand Saudi riyals to (6,000,000) six million Saudi riyals, divided into (40,000) forty thousand ordinary shares of equal value, the value of each share being (150) one hundred and fifty Saudi riyals. The capital increase amounting to (4,500,000) four million five hundred thousand Saudi riyals was achieved by transferring the entire amount from the retained earnings account to the capital account.

Summary

Issuer's name, description and information on its incorporation

This was documented under the amended Articles of Association dated 18/09/1430H (corresponding to 08/09/2009G). In 2010G, the Company's capital was increased from (6,000,000) six million Saudi riyals to (30,000,000) thirty million Saudi riyals, and the nominal value of each share was adjusted from (150) one hundred and fifty Saudi riyals to (750) seven hundred and fifty Saudi riyals, where The total number of shares became (40,000) forty thousand ordinary shares of equal value, the value of each share (750) seven hundred and fifty Saudi riyals. The capital increase amounting to (24,000,000) twenty-four million Saudi riyals was achieved by transferring the entire amount from the retained earnings account to the capital account. This was documented under the amended Articles of Association dated 18/06/1431H (corresponding to 01/06/2010G). In 2011G, the Company's capital was increased from (30,000,000) thirty million Saudi riyals to (60,000,000) sixty million Saudi riyals, divided into (80,000) eighty thousand ordinary shares of equal value, the value of each share being (750) seven hundred and fifty Saudi riyals. The capital increase amounting to (30,000,000) thirty million Saudi riyals is effected by transferring the entire amount from the retained earnings account to the capital account. This was documented under the amended Articles of Association dated 20/05/1432H (corresponding to 24/04/2011G). In 2013G, the partner Ahmad Shafer Ahmad Al-Tabbaa assigned (2,400) two thousand and four hundred of his shares in the Company to Talal Yousuf Mahmoud Zahid. This was documented under the amended Articles of Association dated 23/12/1434H (corresponding to 28/10/2013G). In 2015G, the partner Ahmad Shafer Ahmad Al-Tabbaa assigned (2,400) two thousand and four hundred of his shares in the Company to Talal Yousuf Mahmoud Zahid, and the partner Faisal Suleiman Mohammed Al-Jamaan assigned (3,000) three thousand of his shares in the Company to Ahmad Shafer Ahmad Al-Tabbaa. This was documented under the amended Articles of Association dated 08/08/1436H (corresponding to 26/05/2015G). In 2016G, the partner Ahmad Shafer Ahmad Al-Tabbaa assigned (2,400) two thousand and four hundred of his shares in the Company to Talal Yousuf Mahmoud Zahid, and (800) eight hundred of his shares in the Company to Yousuf Talal Yousuf Zahid. This was documented under the amended Articles of Association dated 15/05/1437H (corresponding to 24/02/2016G). In 2018G, the partner Ahmad Shafer Ahmad Al-Tabbaa assigned (2,000) two thousand of his shares in the Company to Faisal Suleiman Mohammed Al-Jamaan, and (640) six hundred and forty of his shares in the Company to Yousuf Talal Yousuf Zahid, and the partner Haitham Mohieddin Khairy Al-Jawhari assigned his entire shares in the Company, amounting to (4,000) four thousand shares, to Ahmad Shafer Ahmad Al-Tabbaa, the partner Abdullah Saleh Yousuf Yassin transferred his entire shares in the Company, amounting to (4,000) four thousand shares, to Talal Yousuf Mahmoud Zahid, the partner Al-Baqa Comprehensive Marketing Company transferred all of his shares in the Company, amounting to (5,600) five thousand and six hundred shares, to Talal Yousuf Mahmoud Zahid, and the partner Faisal Shafer Ahmad Al-Tabbaa transferred (160) one hundred and sixty of his shares in the Company to Yousuf Talal Yousuf Zahid. This was documented under the amended Articles of Association dated 27/06/1439H (corresponding to 15/03/2018G). In 2018G, the Company merged with the Middle East Distribution Company with all its branches (3 branches), which is a limited liability company owned by the same partners under Commercial Registration No. (1010175025) dated 11/01/1423H (corresponding to 25/03/2002G). After the merger, the Middle East Distribution Company and its branches became branches of the Company, with their rights and obligations. This was documented under the amended Articles of Association dated 23/12/1439H (corresponding to 03/09/2018G). In 2021G, the Company merged with the Al-Shamila Distribution Limited Company, a limited liability company owned by the same partners under Commercial Registration No. (1010252567), dated 24/06/1429H (corresponding to 28/08/2008G). After the merger, Al-Shamila Distribution Limited Company became a branch of the Company, with their rights and obligations. This was documented under the amended Articles of Association dated 07/03/1443H (corresponding to 13/10/2021G). During the year 2022G, the Company's capital was increased from (60,000,000) sixty million Saudi riyals to (200,000,000) two hundred million Saudi riyals, and the nominal value of one share was adjusted from (750) seven hundred and fifty Saudi riyals to (10) ten Saudi riyals. The total number of shares became (20,000,000) twenty million ordinary shares of equal value, the value of each of which is (10) ten Saudi riyals. The capital increase amounting to (140,000,000) one hundred and forty million Saudi riyals was achieved by transferring the entire amount from the retained earnings account to the capital account. This was documented under the amended Articles of Association dated 19/07/1443H (corresponding to 20/02/2022G).

Summary

Issuer's name, description and information on its incorporation	<p>In 2022G, the Company was converted into a closed joint stock company pursuant to the Ministry of Commerce Resolution No. (962) dated 13/09/1443H (corresponding to 14/04/2022G) and pursuant to Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/06/1998G). In 2023G, on 25/09/1444H (corresponding to 16/04/2023G), shareholder Ahmad Shaher Ahmad Al-Tabbaa assigned all of his shares in the Company, amounting to (12,050,000) twelve million and fifty thousand shares, to Tabbaa National Holding Company, and on 25/09/1444H (corresponding to 16/04/2023G), shareholder Faisal Suleiman Mohammed Al-Jamaan assigned all of his shares in the Company, totaling (750,000) seven hundred and fifty thousand shares, of which (500,000) five hundred thousand shares assigned to Durrat Al-Wadaa Investment Company, and (250,000) two hundred and fifty thousand shares to Durrat Al-Faisal Investment Company. This was documented in the Company's electronic shareholder register issued by the Ministry of Commerce on 11/10/1444H (corresponding to 01/05/2023G) and Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). The Company's current capital is (200,000,000) two hundred million Saudi riyals, divided into (20,000,000) twenty million fully paid ordinary shares, the value of each of which is (10) ten Saudi riyals. The Head Office of the Company is located in the city of Riyadh.</p>																																																
Issuer activities	<p>Avalon Pharma develops, manufactures, markets and distributes a wide range of generic medicines and pharmaceuticals in the Kingdom of Saudi Arabia and abroad through a diversified, high-quality product portfolio covering several therapeutic categories.</p> <p>The Company's activity, according to its commercial registration, is the manufacture of disinfectants and sterilizers for medical devices and products, the manufacture of disinfectants and sterilizers for non-medical use, the manufacture of cosmetics, and the manufacture of pharmaceutical preparations for human use. The Company's objectives, according to its bylaws, are as follows:</p> <ul style="list-style-type: none"> • Transformative Industries. • Transportation and storage. • Wholesale and retail trade and repair of motor vehicles and motorcycles. <p>The Company carries out its main activities through its headquarters in the city of Riyadh. The Company does not carry out its activities except after obtaining the regulatory licenses required by the prevailing regulations in force in the Kingdom of Saudi Arabia. The Company has obtained all the required regulatory licenses, and all of these licenses are still in effect until the date of this Prospectus (see Section No. (12-5) «Certificates, Approvals, and Licenses Obtained by the Company» of this Prospectus).</p>																																																
Substantial Shareholders, their Shareholdings and Ownership Percentages Pre- and Post- Offering	<p>There are (4) four substantial shareholders, each of whom owns 5% or more of the Company's shares as of the date of this Prospectus. The following table shows the number of their shares and their percentage of ownership before and after the Offering:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2" style="text-align: center;">Substantial Shareholder</th> <th colspan="3" style="text-align: center;">Pre-Offering</th> <th colspan="3" style="text-align: center;">Post-Offering</th> </tr> <tr> <th style="text-align: center;">No. of Shares</th> <th style="text-align: center;">Direct ownership percentage</th> <th style="text-align: center;">Indirect ownership percentage</th> <th style="text-align: center;">No. of Shares</th> <th style="text-align: center;">Direct ownership percentage</th> <th style="text-align: center;">Indirect ownership percentage</th> </tr> </thead> <tbody> <tr> <td>Tabbaa National Holding Company</td> <td style="text-align: right;">12,050,000</td> <td style="text-align: right;">60.2500%</td> <td style="text-align: center;">-</td> <td style="text-align: right;">8,435,000</td> <td style="text-align: right;">42.1750%</td> <td style="text-align: center;">-</td> </tr> <tr> <td>Talal Yousuf Mahmoud Zahid</td> <td style="text-align: right;">4,200,000</td> <td style="text-align: right;">21.0000%</td> <td style="text-align: center;">-</td> <td style="text-align: right;">2,940,000</td> <td style="text-align: right;">14.7000%</td> <td style="text-align: center;">-</td> </tr> <tr> <td>Ali Shaher Ahmad Al-Tabbaa</td> <td style="text-align: right;">1,320,000</td> <td style="text-align: right;">6.6000%</td> <td style="text-align: center;">-</td> <td style="text-align: right;">924,000</td> <td style="text-align: right;">4.6200%</td> <td style="text-align: center;">-</td> </tr> <tr> <td>Faisal Shaher Ahmad Al-Tabbaa</td> <td style="text-align: right;">1,280,000</td> <td style="text-align: right;">6.4000%</td> <td style="text-align: center;">-</td> <td style="text-align: right;">896,000</td> <td style="text-align: right;">4.4800%</td> <td style="text-align: center;">-</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">18,850,000</td> <td style="text-align: right;">94.2500%</td> <td style="text-align: center;">-</td> <td style="text-align: right;">13,195,000</td> <td style="text-align: right;">65.9750%</td> <td style="text-align: center;">-</td> </tr> </tbody> </table>	Substantial Shareholder	Pre-Offering			Post-Offering			No. of Shares	Direct ownership percentage	Indirect ownership percentage	No. of Shares	Direct ownership percentage	Indirect ownership percentage	Tabbaa National Holding Company	12,050,000	60.2500%	-	8,435,000	42.1750%	-	Talal Yousuf Mahmoud Zahid	4,200,000	21.0000%	-	2,940,000	14.7000%	-	Ali Shaher Ahmad Al-Tabbaa	1,320,000	6.6000%	-	924,000	4.6200%	-	Faisal Shaher Ahmad Al-Tabbaa	1,280,000	6.4000%	-	896,000	4.4800%	-	Total	18,850,000	94.2500%	-	13,195,000	65.9750%	-
Substantial Shareholder	Pre-Offering			Post-Offering																																													
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Issuer's capital	(200,000,000) Two hundred million Saudi Riyals.																																																

Summary	
Total number the Issuer's shares	(20,000,000) Twenty million shares.
Nominal value of the share	Ten (10) Saudi Riyals per share.
Offering	Offering (6,000,000) six million ordinary shares with a fully paid nominal value of (10) ten Saudi riyals per share, representing 30% of the Company's capital at an offering price of (82) eighty two Saudi riyals per share.
Total number of offered shares	(6,000,000) Six million fully paid ordinary shares.
Percentage of offered shares to the Company's capital	(30.0%) Thirty percent.
Offering price	SAR (82) Eighty two.
Total value of the Offering	(SAR 492,000,000) Four hundred ninety two million Saudi Riyals.
Use of the Offering Proceeds	The net Offering Proceeds amounting to (462,000,000) four hundred sixty two million Saudi Riyals will be distributed, after deducting the Offering Expenses estimated at (SAR 30,000,000) thirty million Saudi Riyals, to the Selling Shareholders according to the number of shares owned by each selling shareholder of the offered shares. The Company will not receive any part of the Offering Proceeds (see Section (8) « Use of the Offering Proceeds » of this Prospectus).
Number of Offer Shares to be Underwritten	(6,000,000) Six million ordinary shares.
Total value of the Underwritten shares	SAR (492,000,000) Four hundred ninety two million.
Categories of target investors	<p>Subscription to the Offer Shares is limited, in accordance with the requirements of the Rules on the Offer of Securities and Continuing Obligations, to two categories of investors («investors»), namely:</p> <p>Tranche (A): Participating Parties: This Tranche includes the categories that are entitled to participate in the Book Building process in accordance with the instructions for Book Building (see Section No. (1) «Terms and Definitions» of this Prospectus).</p> <p>Tranche (B): Individual Subscribers: This tranche comprises Saudi natural persons, including any Saudi female divorcee or widow with minor children from a marriage to a non-Saudi individual, who may subscribe for her own benefit or in the names of her minor children, on the condition that she proves that she is a divorcee or widow and the mother of her minor children, any non-Saudi natural person who is resident in KSA, or GCC nationals, in each case who have a bank account, and are entitled to open an investment account with one of the Receiving Agents. Subscription by a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature is proven to have occurred, the law shall be enforced against the applicant. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted.</p>

Summary

Total Number of Offer Shares for Each Category of Target Investors	<p>Number of the Offer Shares for Participating Parties: (6,000,000) six million shares, representing 100% of the total Offering Shares. In the event that Individual Subscribers subscribe to all of the Offering Shares allocated to them, the Bookrunner shall have the right to reduce the number of shares allocated to Participating Parties to (5,400,000) five million four hundred thousand Offer Shares - as a minimum - representing 90% of the total Offer Shares. Initially. Provisionally, (1,800,000) million and eight hundred thousand ordinary shares will be allocated to public funds category, representing 30% of the total number of the Offer Shares. Note that if there is sufficient demand from Individual Subscribers to subscribe to the Offer Shares, the Lead Manager shall have the right to reduce the number of shares allocated to public funds to (1,620,000) one million six hundred and twenty thousand ordinary shares as a minimum, representing 27% of the total number of Offer Shares after completion of the Individual Subscription process.</p> <p>Number of Offer Shares for Individual Subscribers: (600,000) Six hundred thousand Offer Shares -as a maximum- representing 10% of the total Offer Shares.</p>
Subscription Method for Each Category of Target Investors	<p>Subscription method for Participating Parties: Participating Parties have the right to file an application to participate in book building process. The Bookrunner will provide participation application forms to the Participating Parties during the book building process. After the initial allocation, the Bookrunner will provide subscription forms to the Participating Parties to whom shares have been allocated, which they must complete in accordance with the instructions set forth in Section (17) «Information related to the Shares and Offering terms and conditions» of this Prospectus.</p> <p>Subscription method for Individual Subscribers: Applications to subscribe to the Offer Shares can be submitted by Individual Subscribers who have a bank account with any of the receiving agents (Alinma Bank and the Saudi National Bank) via electronic channels, telephone banking, or ATMs affiliated with the receiving agent that provide all of these services or some of them to its customers (see Section (17) «Information related to the Shares and Offering terms and conditions» of this Prospectus). In the event that the information provided in the subscription application is incomplete or incorrect, the subscription application is considered void.</p>
Minimum Number of Offer Shares to be Applied for by Each Category of Target Investors	<p>The minimum number of shares that can be subscribed for by Participating Parties: (10,000) ten thousand shares.</p> <p>The minimum number of shares that can be subscribed for by Individual Subscribers: (10) ten shares.</p>
Minimum Subscription Amount for Each Category of Target Investors	<p>The value of the minimum number of shares that can be subscribed to for Participating Parties: (820,000) eight hundred twenty thousand Saudi Riyals.</p> <p>The value of the minimum number of shares that can be subscribed to for Individual Subscribers: (820) eight hundred twenty Saudi Riyals.</p>
Maximum Number of Offer Shares to be Applied for by Each Category of Target Investors	<p>The maximum number of shares that can be subscribed for by Participating Parties: (990,000) nine hundred and ninety thousand shares.</p> <p>The maximum number of shares that can be subscribed for by Individual Subscribers: (600,000) six hundred thousand shares.</p>
Maximum Subscription Amount for Each Category of Target Investors	<p>The value of the maximum number of shares that can be subscribed to for Participating Parties: (81,180,000) eighty one million and one hundred eighty thousand Saudi Riyals.</p> <p>The value of the maximum number of shares that can be subscribed for by Individual Subscribers: (49,200,000) forty nine million and two hundred thousand Saudi Riyals.</p>

Summary	
Offering Expenses	<p>The Offering expenses represent the expenses and costs related to the Offering, which are estimated at approximately (30,000,000) thirty million Saudi riyals. The Offering expenses include the fees of the Financial Advisor, Bookrunner, Lead Manager, Underwriter, Legal Advisor, Financial Due Diligence Advisor, Market Study Advisor, Auditor, and Receiving Agents, as well as the expenses of opening an Escrow account, marketing and printing costs, and other expenses related to the Offering. The Selling Shareholders will bear the entire Offering expenses, as all Offering expenses will be deducted from the total Offering Proceeds pro rata with the sold Offer Shares.</p>
Allocation of Offer Shares and Refund of Excess Subscription Monies for Each Category of Target Investors	<p>Allocation method for Participating Parties: The initial allocation of the Offer Shares will take place according to what the Financial Advisor deems appropriate in coordination with the Company, using the discretionary share allocation mechanism. Some Participating Parties may not be allocated any shares, according to what the Company and the Financial Advisor deem appropriate. The Offer Shares will be finally allocated to the Participating Parties by the Lead Manager after completion of the subscription process for Individual Subscribers. The number of Offer Shares that will be initially allocated to the Participating Parties is (6,000,000) six million shares, representing 100% of the total Offer Shares. In the event that there is sufficient demand from Individual Subscribers to the Offer Shares, the Bookrunner has the right to reduce the number of shares allocated to the Participating Parties to (5,400,000) five million four hundred thousand Offer Shares - as a minimum - representing 90% of the total Offer Shares after completion of the subscription process for Individual Subscribers. Initially, (1,800,000) million and eight hundred thousand ordinary shares will be allocated to the public funds category, representing 30% of the total number of Offer Shares. Note that if there is sufficient demand by Individual Subscribers to subscribe to the Offer Shares, the Lead Manager has the right to reduce the number of shares allocated to public funds to (1,620,000) one million six hundred and twenty thousand ordinary shares as a minimum, representing 27% of the total number of the Offer Shares after completion of the Individual Subscription process.</p> <p>Allocation method for Individual Subscribers: A maximum of (600,000) six hundred thousand shares of the Offer Shares, equivalent to 10% of the total Offer Shares, will be allocated to Individual Subscribers. If Individual Subscribers do not subscribe to the full number of Offer Shares allocated to them, the Bookrunner has the right to reduce the number of shares allocated to Individual Subscribers pro rata the number of shares subscribed by them.</p> <p>It is expected that the Offer Shares will be allocated to Individual Subscribers no later than Thursday 27/07/1445H (corresponding to 08/02/2024G),</p> <p>The minimum allocation for each individual subscriber is (10) ten Offer Shares. The remainder of the Offer Shares (if any) will be allocated on a pro rata basis based on the ratio of what each individual subscriber requested to the total shares required to be subscribed for. If the number of Individual Subscribers exceeds (60,000) sixty thousand subscribers, the Company does not guarantee the minimum allocation, and the allocation will be made in accordance with what the Company and the Financial Advisor propose (see Section No. (17) «Information related to the shares and offering terms and conditions» of this Prospectus).</p>
Refund of Excess Subscription Monies (if any)	<p>The Lead Manager or the Receiving Agents (as the case may be) will notify the subscribers of the final number of Offer Shares allocated to each of them along with the amounts to be refunded. The subscription surplus (if any) will be refunded to subscribers without any commissions or deductions from the Receiving Agents, and will be deposited in the subscriber's account specified in the subscription application. The final allocation process will be announced no later than Thursday 27/07/1445H (corresponding to 08/02/2024G) and the refund of the surplus (if any) will be announced no later than Wednesday 04/08/1445H (corresponding to 14/02/2024G).</p>
Offering Period	<p>The Offering Period begins on Tuesday 18/07/1445H (corresponding to 30/01/2024G) and continues until the end of Thursday 20/07/1445H (corresponding to 01/02/2024G).</p>
Entitlement to dividends	<p>The Offer Shares will be entitled to receive dividends declared by The Company for the period following the end of the Offering Period and for subsequent fiscal years.</p> <p>(See Section (7) «Dividends Policy» in this Prospectus).</p>

Summary	
Voting rights	All the Company's shares are ordinary of one class, and the share does not give its holder any preferential rights, and each shares give his holder one vote. Every shareholder has the right to attend and vote at the meetings of the general assembly of shareholders. Each shareholder also has the right to delegate any other shareholder, other than members of the Company's Board of Directors or employees, to act on his behalf in attending the General Assembly meetings and voting on its decisions. (see Section (12-13) « Summary of the Company's Bylaws » of this Prospectus).
Restrictions relating to the Shares	The Existing Substantial Shareholders who own 5% or more of the Company's shares (whose names are mentioned on page (xxii) may not dispose of any Shares during a period of 6 months from the date on which trading of the Offer Shares commences on the Main Market (« Lock-up Period »). After the said share restriction period has elapsed, the Substantial Shareholders have the right to dispose of their shares without the need to obtain prior consent from the Authority.
Company's previously issued shares	Prior to this Offering, the Company's shares had never been listed or traded on any stock exchange, whether inside or outside the Kingdom of Saudi Arabia. The Company has filed an application with the Capital Market Authority to register and offer its shares in accordance with the Rules on the Offer of Securities and Continuing Obligations. It has also submitted an application to list the shares on the Stock Exchange of Saudi Tadawul Company in accordance with the Listing Rules, and all required documents have been submitted to the competent authorities, and all relevant requirements have been fulfilled, for obtaining all approvals related to the offering process, including this Prospectus. It is expected that trading of shares in the financial market will begin soon after the completion of the share allocation process, the return of the surplus, and the fulfillment of all relevant regulatory requirements (see the « Key Dates and Subscription Procedures » section on page No. (xvii) of this Prospectus).
Risk Factors	Investing in Offer Shares involves certain risks as follows: Risks related to the Company's activity and operations. Risks related to the market and sector in which the Company operates. Risks related to the Offering shares. These risks have been reviewed in Section No. (2) « Risk Factors » of this Prospectus, which must be carefully studied before making any decision to invest in the Offer Shares. Please also review the « Important Notice » section on page No. (i) of this Prospectus.
Financial Advisor and Bookrunner	Aldukheil Financial Group Naeem Bin Hammad Street, Al Wazarat District, Riyadh P.O. Box 2462 Riyadh 11451 Kingdom of Saudi Arabia Tel: + 966 11 4309800 Fax: + 966 11 4787795 Website: www.aldukheil.com.sa E-mail: info@aldukheil.com.sa
Lead Manager and Underwriter	Alinma Investment Company Al Anoud Tower 2, King Fahd Road, Riyadh P.O. Box. 55560 Riyadh 11544 Kingdom of Saudi Arabia Tel: +966 11 2185999 Fax: +966 11 2185970 Website: www.alinmainvestment.com Email: info@alinmainvest.com

Note: The «**Important Notice**» section on page (i) and Section No. (2) «**Risk Factors**» on page (7) of this Prospectus must be studied carefully before making any decision related to investing in the Offer Shares under this Prospectus.

Key Dates and Subscription Procedures

Expected Timeline of the Offering

Event	Date
Application registration period for Participating Parties and Book Building Process.	A period of (5) five working days starting from Sunday 02/07/1445H (corresponding to 14/01/2024G) and continuing until the end of Thursday 06/07/1445H (corresponding to 18/01/2024G)
Offering period for Individual Subscribers	A period of (3) three working days starting from Tuesday 18/07/1445H (corresponding to 30/01/2024G) and continuing until the end of Thursday 20/07/1445H (corresponding to 01/02/2024G)
Deadline for submission of Subscription Application Forms for Participating Parties based on the number of Offer Shares provisionally allocated for each Participating Party	On Thursday 20/07/1445H (corresponding to 01/02/2024G)
The last date for paying the subscription amount to the Participating Parties based on the number of shares initially allocated to each of them	On Thursday 20/07/1445H (corresponding to 01/02/2024G)
The last date for submitting subscription applications and paying the subscription amount for Individual Subscribers	On Thursday 20/07/1445H (corresponding to 01/02/2024G)
Announcing the final allocation of Offer Shares and notifying investors	No later than Thursday 27/07/1445H (corresponding to 08/02/2024G)
Refund of the surplus (if any)	No later than Wednesday 04/08/1445H (corresponding to 14/02/2024G)
Expected date of commencement of trading on the Exchange	Trading of the Company's Shares on the Exchange is expected to commence after fulfilment of all relevant statutory requirements. Commencement of trading will be announced through local newspapers and the Exchange website (www.saudiexchange.sa)

Note: All dates mentioned in the above table are tentative, and the actual dates will be announced in daily local newspapers and through the Saudi Tadawul website (www.saudiexchange.sa), the Aldukheil Financial Group website (www.aldukheil.com.sa), and website of the Middle East Pharmaceutical Industries Company (www.avalonpharmaceutical.com).

How to Apply for the Offering

Subscription to the Offer Shares is limited, in accordance with the requirements of the Rules on the Offer of Securities and Continuing Obligations, to two categories of investors, namely:

Tranche (A): Participating Parties: This Tranche includes the categories that are entitled to participate in the Book Building process in accordance with the instructions for Book Building (see Section No. (1) «**Terms and Definitions**» of this Prospectus).

Tranche (B): Individual Subscribers: This tranche comprises Saudi natural persons, including any Saudi female divorcee or widow with minor children from a marriage to a non-Saudi individual, who may subscribe for her own benefit or in the names of her minor children, on the condition that she proves that she is a divorcee or widow and the mother of her minor children, any non-Saudi natural person who is resident in KSA, or GCC nationals, in each case who have a bank account, and are entitled to open an investment account with one of the Receiving Agents. Subscription by a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature is proven to have occurred, the law shall be enforced against the applicant. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted.

The following is a brief summary of the subscription method for Participating Parties and individual subscribers:

Participating Parties: Participating Parties can obtain Bid Forms from the Bookrunners during the Book-Building Period and Subscription Application Forms from the Bookrunner after the provisional allocation. The Bookrunner shall, after approval of the CMA, offer the Offer Shares to the Participating Parties only during the Book-Building Period. Subscriptions by the Participating Parties shall commence during the Offering Period, which also includes the Individual Subscribers, in accordance with the terms and conditions detailed in the Subscription Application Forms of Participating Parties. A signed Subscription Application Form shall be submitted to the Bookrunner, with such a form constitutes a binding agreement between the Selling Shareholders and the applicant Participating Party.

Individual Subscribers: Individual Subscribers' Subscription Application Forms will be available during the Offering Period for Individual Subscribers on the websites of the Receiving Agents offering such service. Individual Subscribers may subscribe through the internet, telephone banking or ATMs of the Receiving Agents offering one or all such services to Individual Subscribers, provided that the following requirements are satisfied:

- the Individual Subscriber must have a bank account with the Receiving Agent which offers such services;
- there have been no changes in the personal information or details of the Individual Subscriber (by way of the removal or addition of a family member) since such person's last participated in a recent initial public offering.
- Individual subscribers who are not Saudis or citizens of the Gulf Cooperation Council countries must have an account with one of the financial market institutions that provide such a service.

Each Individual Subscriber must fill out a Subscription Application Form according to the instructions set out in Section (17) «**Information related to the Shares and the Offering Terms and Conditions**» of this Prospectus, and must complete all the relevant sections in the relevant Subscription Application Form. The Company reserves the right to decline any Subscription Application, in part or in whole, in the event that any of the subscription terms and conditions are not met. The Subscription Application Form cannot be amended or withdrawn once submitted. Furthermore, the Subscription Application Form shall, upon submission, be considered to be a legally binding offer by the relevant Subscriber to the Selling Shareholders. In the event of two subscriptions, one of the subscriptions shall be deemed void and only one subscription shall be considered.

Excess subscription monies, if any, will be refunded to the account of the Individual Subscriber that initially debited the subscription amount therefrom, without any commissions or amounts being withheld by the Lead Manager or the Receiving Agents. Excess subscription monies shall not be refunded in cash or to third-party accounts.

For further details regarding subscription by Individual Subscribers or Participating Parties, please see Section (17) «**Information related to the Shares and the Offering Terms and Conditions**» of this Prospectus.

Summary of Key Information

Note to Investors

This summary aims to provide a general overview of the information contained in this Prospectus, but it does not include all the information that may be important to investors who wish to participate in the subscription process. Therefore, this summary is considered a summary of the basic information contained in this Prospectus, and it is necessary to recipients of this Prospectus read it in its entirety before making any decision to invest in the Company. Some of the terms and abbreviated phrases contained in this Prospectus have been defined in Section No. (1) «**Terms and Definitions**» of this Prospectus.

Company Overview

Middle East Pharmaceutical Industries Company «**Avalon Pharma**» was established as a limited liability company under the name «**Middle East Chemical Products Factory Company**» pursuant to the Articles of Association signed on 04/03/1419H (corresponding to 29/06/1998G) and Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). The Company's capital, upon its establishment, amounted to (500,000) five hundred thousand Saudi riyals, divided into (500) five hundred ordinary shares of equal value, each of which at (1,000) one thousand Saudi riyals. In 2001G, the partner Hani Bashir Abdul Hamid Al-Azm relinquished his entire shares in the Company, amounting to (150) one hundred and fifty shares, to Shaher Ahmad Shaher Al-Tabbaa, and the Company's capital was increased from (500,000) five hundred thousand Saudi riyals to (1,500,000) one million five hundred thousand Saudi riyals. The nominal value of the share was modified from (1,000) one thousand Saudi riyals to (3,000) three thousand Saudi riyals, so that the total number of shares became (500) five hundred ordinary shares of equal value, each of which at (3,000) three thousand Saudi riyals. The increase in capital amounting to (1,000,000) million Saudi riyals was effected by cash deposits in the Company's accounts. This was documented under the amended Articles of Association dated 08/01/1422H (corresponding to 02/04/2001G). In 2006G, the partner Ahmad Shaher Ahmad Al-Tabbaa assigned (25) twenty-five of his shares in the Company to Abdullah Saleh Yousuf Yassin, and the partner Shaher Ahmad Shaher Al-Tabbaa assigned his entire shares in the Company, amounting to (150) one hundred and fifty shares, to each of Haitham Mohieddin Khairy Al-Jawhari under (50) fifty shares, Faisal Shaher Ahmad Al-Tabbaa (37.5) thirty-seven and a half shares, Ali Shaher Ahmad Al-Tabbaa (37.5) thirty-seven and a half shares, and Abdullah Saleh Yusuf Yassin (25) twenty-five shares. . This was documented under the amended Articles of Association dated 12/12/1426H (corresponding to 12/01/2006G). In 2006G, the Company's name was changed from «**Middle East Chemical Products Factory Company**» to «**Middle East Pharmaceutical Industries Company**», and this was documented under the amended Articles of Association dated 07/11/1427H (corresponding to 28/11/2006G). In 2008G, the nominal value of the share was amended from (1,000) one thousand Saudi riyals to (150) one hundred and fifty Saudi riyals, so that the total number of shares became (10,000) ten thousand ordinary shares of equal value, the value of each share being (150) one hundred and fifty Saudi riyals. The partner Ahmad Shaher Ahmad Al-Tabbaa assigned (800) eight hundred of his shares in the Company to Al-Baqa Comprehensive Marketing and Trade Company, partner Abdullah Saleh Yousuf Yassin assigned (120) one hundred and twenty of his shares in the Company to Faisal Suleiman Mohammed Al-Jamaan, partner Haitham Mohieddin Khairy Al-Jawhari assigned (95) ninety-five of his shares in the Company to Al-Baqa Comprehensive Marketing and Trade Company, and (5) five of his shares in the Company to Faisal Suleiman Mohammed Al-Jamaan, and the partner Faisal Shaher Ahmad Al-Tabbaa assigned (90) ninety of his shares in the Company to Al-Baqa Comprehensive Marketing and Trade Company, and partner Ali Shaher Ahmad Al-Tabbaa assigned ninety (90) of his shares in the Company to Al-Baqa Comprehensive Marketing and Trade Company. This was documented under the amended Articles of Association dated 11/03/1429H (corresponding to 19/03/2008G). In 2009G, the Company's capital was increased from (1,500,000) one million five hundred thousand Saudi riyals to (6,000,000) six million Saudi riyals, divided into (40,000) forty thousand ordinary shares of equal value, the value of each share being (150) one hundred and fifty Saudi riyals. The capital increase amounting to (4,500,000) four million five hundred thousand Saudi riyals was achieved by transferring the entire amount from the retained earnings account to the capital account. This was documented under the amended Articles of Association dated 18/09/1430H (corresponding to 08/09/2009G). In 2010G, the Company's capital was increased from (6,000,000) six million Saudi riyals to (30,000,000) thirty million Saudi riyals, and the nominal value of each share was adjusted from (150) one hundred and fifty Saudi riyals to (750) seven hundred and fifty Saudi riyals, where The total number of shares became (40,000) forty thousand ordinary shares of equal value, the value of each share (750) seven hundred and fifty Saudi riyals. The capital increase amounting to (24,000,000) twenty-four million Saudi riyals was achieved by transferring the entire amount from the retained earnings account to the capital account. This was documented under the amended Articles of Association dated 18/06/1431H (corresponding to 01/06/2010G). In 2011G, the Company's capital was increased from (30,000,000) thirty million Saudi riyals to (60,000,000) sixty million Saudi riyals, divided into (80,000) eighty thousand ordinary shares

of equal value, the value of each share being (750) seven hundred and fifty Saudi riyals. The capital increase amounting to (30,000,000) thirty million Saudi riyals is effected by transferring the entire amount from the retained earnings account to the capital account. This was documented under the amended Articles of Association dated 20/05/1432H (corresponding to 24/04/2011G). In 2013G, the partner Ahmad Shaher Ahmad Al-Tabbaa assigned (2,400) two thousand and four hundred of his shares in the Company to Talal Yousuf Mahmoud Zahid. This was documented under the amended Articles of Association dated 23/12/1434H (corresponding to 28/10/2013G). In 2015G, the partner Ahmad Shaher Ahmad Al-Tabbaa assigned (2,400) two thousand and four hundred of his shares in the Company to Talal Yousuf Mahmoud Zahid, and the partner Faisal Suleiman Mohammed Al-Jamaan assigned (3,000) three thousand of his shares in the Company to Ahmad Shaher Ahmad Al-Tabbaa. This was documented under the amended Articles of Association dated 08/08/1436H (corresponding to 26/05/2015G). In 2016G, the partner Ahmad Shaher Ahmad Al-Tabbaa assigned (2,400) two thousand and four hundred of his shares in the Company to Talal Yousuf Mahmoud Zahid, and (800) eight hundred of his shares in the Company to Yousuf Talal Yousuf Zahid. This was documented under the amended Articles of Association dated 15/05/1437H (corresponding to 24/02/2016G). In 2018G, the partner Ahmad Shaher Ahmad Al-Tabbaa assigned (2,000) two thousand of his shares in the Company to Faisal Suleiman Mohammed Al-Jamaan, and (640) six hundred and forty of his shares in the Company to Yousuf Talal Yousuf Zahid, and the partner Haitham Mohieddin Khairy Al-Jawhari assigned his entire shares in the Company, amounting to (4,000) four thousand shares, to Ahmad Shaher Ahmad Al-Tabbaa, the partner Abdullah Saleh Yousuf Yassin transferred his entire shares in the Company, amounting to (4,000) four thousand shares, to Talal Yousuf Mahmoud Zahid, the partner Al-Baqa Comprehensive Marketing Company transferred all of his shares in the Company, amounting to (5,600) five thousand and six hundred shares, to Talal Yousuf Mahmoud Zahid, and the partner Faisal Shaher Ahmad Al-Tabbaa transferred (160) one hundred and sixty of his shares in the Company to Yousuf Talal Yousuf Zahid. This was documented under the amended Articles of Association dated 27/06/1439H (corresponding to 15/03/2018G). In 2018G, the Company merged with the Middle East Distribution Company with all its branches (3 branches), which is a limited liability company owned by the same partners under Commercial Registration No. (1010175025) dated 11/01/1423H (corresponding to 25/03/2002G). After the merger, the Middle East Distribution Company and its branches became branches of the Company, with their rights and obligations. This was documented under the amended Articles of Association dated 23/12/1439H (corresponding to 03/09/2018G). In 2021G, the Company merged with the Al-Shamila Distribution Limited Company, a limited liability company owned by the same partners under Commercial Registration No. (1010252567), dated 24/06/1429H (corresponding to 28/08/2008G). After the merger, Al-Shamila Distribution Limited Company became a branch of the Company, with their rights and obligations. This was documented under the amended Articles of Association dated 07/03/1443H (corresponding to 13/10/2021G). During the year 2022G, the Company's capital was increased from (60,000,000) sixty million Saudi riyals to (200,000,000) two hundred million Saudi riyals, and the nominal value of one share was adjusted from (750) seven hundred and fifty Saudi riyals to (10) ten Saudi riyals. The total number of shares became (20,000,000) twenty million ordinary shares of equal value, the value of each of which is (10) ten Saudi riyals. The capital increase amounting to (140,000,000) one hundred and forty million Saudi riyals was achieved by transferring the entire amount from the retained earnings account to the capital account. This was documented under the amended Articles of Association dated 19/07/1443H (corresponding to 20/02/2022G).

In 2022G, the Company was converted into a closed joint stock company pursuant to the Ministry of Commerce Resolution No. (962) dated 13/09/1443H (corresponding to 14/04/2022G) and pursuant to Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). In 2023G, on 25/09/1444H (corresponding to 16/04/2023G), shareholder Ahmad Shaher Ahmad Al-Tabbaa assigned all of his shares in the Company, amounting to (12,050,000) twelve million and fifty thousand shares, to Tabbaa National Holding Company, and on 25/09/1444H (corresponding to 16/04/2023G), shareholder Faisal Suleiman Mohammed Al-Jamaan assigned all of his shares in the Company, totaling (750,000) seven hundred and fifty thousand shares, of which (500,000) five hundred thousand shares assigned to Durrat Al-Wadaa Investment Company, and (250,000) two hundred and fifty thousand shares to Durrat Al-Faisal Investment Company. This was documented in the Company's electronic shareholder register issued by the Ministry of Commerce on 11/10/1444H (corresponding to 01/05/2023G). The Company's current capital is (200,000,000) two hundred million Saudi riyals, divided into (20,000,000) twenty million fully paid ordinary shares. The nominal value is (10) ten Saudi riyals per share, all of which are ordinary shares of one category.

Avalon Pharma develops, manufactures, markets and distributes a wide range of generic medicines and pharmaceuticals in the Kingdom of Saudi Arabia and abroad through a diversified, high-quality product portfolio covering several therapeutic categories. The Company's main headquarters is located in Riyadh at the following address:

Middle East Pharmaceutical Industries Company

Second Industrial City, Riyadh

P.O. Box 3800 Riyadh 14331

Kingdom of Saudi Arabia

Tel: +966 11 2653948

Fax: +966 11 2654723

Website: www.avalonpharmaceutical.com

Email: info@avalon.com.sa

The company's ownership structure before and after the offering

The following table shows the ownership structure of the Company's shares before and after the offering:

Table No. (1): The Company's ownership structure before and after the Offering

Shareholders	Pre-Offering				Post Offering			
	No. of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership (%)	No. of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership (%)
1 Tabbaa National Holding Company	12,050,000	120,500,000	60.2500%	-	8,435,000	84,350,000	42.1750%	-
2 Talal Yousuf Mahmoud Zahid	4,200,000	42,000,000	21.0000%	-	2,940,000	29,400,000	14.7000%	-
3 Ali Shafer Ahmad Al-Tabbaa	1,320,000	13,200,000	6.6000%	-	924,000	9,240,000	4.6200%	-
4 Faisal Shafer Ahmad Al-Tabbaa	1,280,000	12,800,000	6.4000%	-	896,000	8,960,000	4.4800%	-
5 Durrat Al-Wadaa Investment Company	500,000	5,000,000	2.5000%	-	350,000	3,500,000	1.7500%	-
6 Yousuf Talal Yousuf Zahid	400,000	4,000,000	2.0000%	-	280,000	2,800,000	1.4000%	-
7 Durrat Al-Faisal Investment Company	250,000	2,500,000	1.2500%	-	175,000	1,750,000	0.8750%	-
Public	-	-	-	-	6,000,000	60,000,000	30.0000%	-
Total	20,000,000	200,000,000	100.0000%	-	20,000,000	200,000,000	100.0000%	-

Source: Avalon Pharma Company

Substantial Shareholders who own 5% or more of the Company's shares

Table No (2): Substantial Shareholders who own 5% or more of the company's shares

Substantial Shareholders	Pre-Offering				Post Offering			
	No. of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership (%)	No. of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership (%)
1 Tabbaa National Holding Company	12,050,000	120,500,000	60.2500%	-	8,435,000	84,350,000	42.1750%	-
2 Talal Yousuf Mahmoud Zahid	4,200,000	42,000,000	21.0000%	-	2,940,000	29,400,000	14.7000%	-
3 Ali Shafer Ahmad Al-Tabbaa	1,320,000	13,200,000	6.6000%	-	924,000	9,240,000	4.6200%	-
4 Faisal Shafer Ahmad Al-Tabbaa	1,280,000	12,800,000	6.4000%	-	896,000	8,960,000	4.4800%	-
Total	18,850,000	188,500,000	94.2500%	-	13,195,000	131,950,000	65.9750%	-

Source: Avalon Pharma Company

Shareholding companies in the Middle East Pharmaceutical Industries Company

Tabbaa National Holding Company: Tabbaa National Holding Company is a limited liability Company under Commercial Registration No. (1010845554) issued by the city of Riyadh on 07/05/1444H (corresponding to 01/12/2022G), and its capital is (100,000) one hundred thousand Saudi riyals. Divided into (100,000) one hundred thousand ordinary shares of equal value, the value of each of which is (1) Saudi riyal. The head office of Tabbaa National Holding Company is located in the city of Riyadh. The following table shows the ownership structure of Tabbaa National Holding Company:

Table No (3): Ownership structure of Tabbaa National Holding Company

Partners	Number of shares	Nominal value of the share (SAR)	Total nominal value of the shares (SAR)	Ownership percentage
Ahmad Shafer Ahmad Al-Tabbaa	51,000	1	51,000	51.00%
Lara Ahmad Shafer Al-Tabbaa	15,000	1	15,000	15.00%
Leena Ahmad Shafer Al-Tabbaa	15,000	1	15,000	15.00%
Shafer Ahmad Shafer Al-Tabbaa	9,500	1	9,500	9.50%
Yousif Ahmad Shafer Al-Tabbaa	9,500	1	9,500	9.50%
Total	100,000	-	100,000	100.00%

Source: Avalon Pharma Company

Durrat Al-Wadaa Investment Company: Durrat Al-Wadaa Investment Company is a one-person Company with limited liability under Commercial Registration No. (1010848791) issued by the city of Riyadh on 27/05/1444H (corresponding to 21/12/2022G), and its capital is (25,000) Twenty-five thousand Saudi riyals, divided into (2,500) two thousand five hundred ordinary shares of equal value, the value of each of which is (10) ten Saudi riyals. The head office of Durrat Al-Wadaa Investment Company is located in the city of Riyadh. The following table shows the ownership structure of Durrat Al-Wadaa Investment:

Table No (4): Ownership structure of Durrat Al-Wadaa Investment Company

Partners	Number of shares	Nominal value of the share (SAR)	Total nominal value of the shares (SAR)	Ownership percentage
Faisal Suleiman Mohammed Al-Jamaan	2,500	10	25,000	100.00%
Total	2,500	-	25,000	100.00%

Source: Avalon Pharma Company

Durrat Al-Faisal Investment Company: Durrat Al-Faisal Investment Company is a limited liability Company under Commercial Registration No. (1010635096) issued by the city of Riyadh on 13/09/1441H (corresponding to 06/05/2020G), and its capital is (100,000) one hundred thousand Saudi riyals divided into (100) one hundred ordinary shares of equal value, and the value of each of which is (1,000) one thousand Saudi riyals. The main headquarters of Durrat Al-Faisal Investment Company is located in the city of Riyadh. The following table shows the ownership structure of Durrat Al-Faisal Investment Company:

Table No (5): Ownership structure of Durrat Al-Faisal Investment Company

Partners	Number of shares	Nominal value of the share (SAR)	Total nominal value of the shares (SAR)	Ownership percentage
Ibrahim Faisal Suleiman Al-Jamaan	40	1,000	40,000	40.00%
Sarah Faisal Suleiman Al-Jamaan	20	1,000	20,000	20.00%
Farah Faisal Suleiman Al-Jamaan	20	1,000	20,000	20.00%
Zain Faisal Suleiman Al-Jamaan	20	1,000	20,000	20.00%
Total	100	-	100,000	100.00%

Source: Avalon Pharma Company

(See Section No. (5-3) «Shareholding Companies in the Middle East Pharmaceutical Industries Company» of this Prospectus)

Company's Main Activities

Avalon Pharma develops, manufactures, markets and distributes a wide range of generic medicines and pharmaceutical products in the Kingdom of Saudi Arabia and abroad through a diversified, high-quality product portfolio covering several therapeutic categories. According to its bylaws, the Company's objectives are as follows:

- Transformative Industries.
- Transportation and storage.
- Wholesale and retail trade and repair of motor vehicles and motorcycles.

The Company carries out its main activities through its headquarters in the city of Riyadh. The Company does not carry out its activities except after obtaining the regulatory licenses required by the prevailing regulations in force in the Kingdom of Saudi Arabia. The Company has obtained all the required regulatory licenses, and all of these licenses are still in effect until the date of this Prospectus (see Section No. (12-5) «**Certificates, Approvals, and Licenses Obtained by the Company**» of this Prospectus).

Vision

To become the leading health, beauty and wellness company in the Kingdom of Saudi Arabia, Middle East and Africa.

Mission

Develop, manufacture and market a wide range of high quality prescription medicines (that needs medical prescriptions) that treat many different diseases, over-the-counter medicines and health care and beauty products that enhance the well-being of society.

Company's strategy

In line with the Kingdom's Vision 2030 to develop the healthcare sector in the Kingdom and focus on the pharmaceutical industry and self-sufficiency of many products, in addition to the trend towards enhancing participation between the public and private sectors and encouraging investment by foreign companies in the Kingdom, Avalon Pharma has developed a business strategy that includes four basic pillars and aims for growth expansion in the Kingdom and abroad is as follows:

Accelerating growth in existing businesses in Saudi Arabia

The Company aspires to its growth pattern, especially in its business within the Kingdom of Saudi Arabia, in an effort to develop its customer base and increase its market share of the categories of products and medicines that it manufactures and imports. Since its incorporation in 2003G, the Company has focused on increasing the production capacity of factories in tandem with the increase in the volume of demand for its products, as it increased production capacity in several time periods during the years 2007G, 2010G, 2013G, 2015G, and 2020G, the last of which was in 2022G, as follows:

Table No (6): Developments in the total production capacity of the Company's factories per production line

year	Creams production lines	Skin and cosmetics production lines	Liquid pharmaceutical production lines	Solid pharmaceutical production lines*	Disinfectants production lines
Total annual production capacity when the Company was established					
2003G	6,100,000 tubes	-	4,000,000 box	-	3,500,000 box
Increase in total annual production capacity					
2007G	-	-	9,200,000 Box	-	-
2010G	12,900,000 tubes	-	-	-	-
2013G	-	-	-	8,100,000 Strips	-
2015G	-	-	-	-	8,250,000 box
2020G	-	3,400,000 tubes	-	-	2,937,600 box
2022G	21,760,000 tubes	-	16,320,000 box	27,200,000 Strips	-
The current total annual production capacity of the Company's factories					
	40,760,000 tubes	3,400,000 tubes	29,520,000 box	35,300,000 strips	14,687,600 box

Source: Avalon Pharma Company

- * The strip includes a certain number of tablets, and their number in one strip varies depending on the type of product and duration of use.

Note: The production capacity of factories is based on 30 working days per month and 20 working hours per day.

The Company's factories produce several categories of medicines and therapeutic products. The two main categories include: the category of products and medicines used in treating skin diseases and skin care products, and the other one is respiratory system medicines category. Other categories include nervous system medications, gastrointestinal medications, musculoskeletal medications, and other medications within various therapeutic classes. Revenues from local sales within the Kingdom constituted the largest portion of the Company's revenues, reaching 92.5%, 90.4%, and 91.4% during the years 2020, 2021, and 2022, respectively, and 92.7% during the first half of 2023G. Revenues from the two main categories together (the category of products and medicines used to treat skin diseases and skin care products, and the respiratory system medicines category) represented more than 46.8%, 67.0%, and 73.4% of total revenues during the years 2020G, 2021G, and 2022G, respectively, and 75.4% during the first half of 2023G. As part of its strategy, the Company seeks to grow its current business in the Kingdom of Saudi Arabia over the coming years and continue to develop its sales through the following:

- **Introducing new products within existing key brands.**
 - Leveraging the strength of the Company's trademarks and focusing on developing other therapeutic categories for those Trademarks. Some of the Company's brands have medicines and other treatments within other therapeutic categories in which investment returns to the Company with positive results in terms of revenue volume and thus business volume and market share.
 - Introducing a new product range and a larger assortment of products and medicines within existing therapeutic categories. During the first half of 2023G, revenues from the skin and respiratory product categories represented 55.4% and 20.0% of the Company's total revenues, respectively, and they are the Company's two main therapeutic categories. The Company has an opportunity to expand the product base within the current therapeutic categories, especially the products of those categories that constitute the smallest part of the Company's business, which include diabetes drug products, chronic primary care products, and cardiovascular and nervous system drugs.
- **Developing the Company's current key Trademarks.**
 - The Company has more than 70 trademarks. It seeks to take advantage of the equity of small, low-performing brands in terms of revenues and focus on developing them into large brands. The Company recently selected about 50 clients from pharmacies, pharmacy chains and hospital pharmacies with the aim of focusing on developing low-performing brands and thus increasing the volume of business from them. These products have good growth opportunities according to the results achieved recently, and according to the market survey and the opinions of customers and end users.
 - Providing an additional, larger collection in terms of package sizes and drug doses.
 - Canceling the license of brands of low performance, which contributes to improving the supply chain and optimal inventory rotation.
- **Focus on spreading existing brands and promoting them further.**
- **Increase the development of tender work.**
 - Launching new products suitable for tender work.
 - Taking advantage of the government's increasing preference to award contracts to local pharmaceutical manufacturing companies.
- **Explore partnership opportunities with large chain pharmacies, hospital pharmacies and retail pharmacies that leverage Avalon Pharma's existing manufacturing capabilities.**

Investing in new products and launching brands

Avalon Pharma is considered a leading company in manufacturing and producing medicines in the Kingdom. According to the results of the market study prepared by Euromonitor International (see Section (3) «**Overview of the Market and Sector**» of this Prospectus), the Company had the largest market share of the products and medicines market in dermatology and skin care products with a share of 8.9%, in addition to the fourth largest share of the respiratory medicines market with a share of 9.1%. The Company is constantly working on studying investment opportunities in the

field of manufacturing medicines and health products to provide a range of health and physical solutions. Over the past years, it has succeeded in investing in a large number of products to increase the size of its portfolio, develop the product assortment, and enter into additional therapeutic categories by launching new brands. Its strategy includes:

- Increasing the depth of the Company's product portfolio by introducing the manufacture and marketing of new products within other therapeutic categories within the Kingdom. The Company has identified some therapeutic categories that it is studying to start manufacturing by the year 2026G, which include general injections, ophthalmic products, and medicines for treating cancer.
- The Company has recently selected about 80 chemical molecular compounds, a group of which it will select after completing the necessary market studies and research, with the aim of developing, manufacturing, registering and launching them over the next few years. The strategy to develop these molecules focuses on strengthening on the shelf product base within the dermatology, respiratory and other categories, in addition to maximizing retail opportunities and leveraging existing brands to stimulate business growth.
- Avalon Pharma will focus on bringing 3 to 5 new pharmaceutical molecules (compounds) annually from global markets that have not yet been launched in Saudi Arabia.
- Moving towards a portfolio of specialized products to benefit from the sector's localization agenda in the Kingdom of Saudi Arabia in line with the strategic objectives of the governments of the Kingdom of Saudi Arabia and Vision 2030, which aims to achieve self-sufficiency in a number of priority products such as various oncology preparations and treatments and solid injections.
 - Research and investment in specialized areas with high growth potential.
 - Expanding the product base that is characterized by limited presence among competitors and profitable investment.
 - Building on the Company's ability to establish and market new consumer brands.
- Explore partnerships with multinational companies to manufacture innovative products in Saudi Arabia that will positively impact Avalon Pharma's image and strengthen its position among other local players.

Expanding export business outside the local Saudi market

In line with Vision 2030 and the strategic goals of the Government of the Kingdom of Saudi Arabia to «**develop economic relations with the region outside the GCC**», Avalon Pharma will focus on expanding its presence and efforts outside the Saudi market. Currently, the Company's sales extend outside the Kingdom to many countries in the Gulf, the Middle East, and Africa, mainly including Kuwait, UAE, Jordan, Iraq, Yemen, Bahrain, Lebanon, Egypt, Sudan, and Libya. The Company's revenues from foreign sales to export customers amounted to 22.5, 27.4, and 26.1 million Saudi riyals during the years 2020, 2021, and 2022G, respectively, and 10.9 million Saudi riyals during the first half of 2023G. Export sales also constituted 7.5% and 9.6% and 8.6% of the Company's total revenues during the same years, respectively, and 7.4% during the first half of 2023G.

The United Arab Emirates currently has the largest share of the Company's export sales, as revenues from it during the years 2020, 2021, and 2022 constituted 39.3%, 28.3%, and 17.3% of total export revenues, respectively, and 44.9% during the first half of 2023G, followed by the State of Kuwait, at 14.0%, 17.7%, and 20.3% during the same years, respectively, and 35.8% during the first half of 2023G.

The Company has gained strong experience over the past years in exporting outside the Kingdom from the operational, economic, regulatory and legal aspects, especially with regard to registering products and medicines and obtaining approvals and permits in accordance with the different requirements of each country to which it exports. The Company finds a good opportunity to increase the volume of its business outside the Kingdom, as follows:

- Focus on expanding current business in the State of Kuwait and the United Arab Emirates, which are considered one of the largest export markets for the Company and has strong growth opportunities in the future.
- Expanding export business by entering new markets and exporting existing products to new countries by focusing on rapid registration of products and expanding the scope of distribution.
- Avalon Pharma has identified 4 markets for expansion and potential entry within its plan over the next few years,

which are Egypt, Morocco, Indonesia, and Malaysia. The Company has determined the appropriate operating model in each of these markets based on the smallest details in those markets, the level of competition from local players in them, and all Regulatory requirements for each of these countries. The Company will explore opportunities to build strategic partnerships with local players in each of them. The Company expects Egypt to contribute mainly to revenue growth by 2030G.

- Avalon Pharma will focus on launching new pharmaceutical molecules (compounds) from global markets where they have not yet been launched.
- The Company will work to expand outside the Kingdom into cardiac disease products and medicines, as it is expected to be the main contributor to business growth in most markets.

A gradual increase in the production capacity of factories

Since the establishment of Avalon Factory (1) in 2003G, the Company has realized the importance of continuous development and immediate keeping up with the latest technical developments in the pharmaceutical industry. From this standpoint, the growth of the Company's business played a major role in pushing the Company to enter into additional investments in production lines and exploit market opportunities by gradually increasing production capacity in tandem with the increase in demand. The Company increased production capacity over several time periods during the years 2007G, 2010G, 2013G, 2015G, and 2020G, the last of which was in 2022G. The Company expects that the coming years may require new additions to its manufacturing capacity, especially in the production lines of skin and cosmetic products (see Section No. (4-17). «**The Company's Factories**» from this Prospectus).

The Company's strengths and competitive advantages

- **Large manufacturing capacity with high quality with the latest facilities and capabilities**

The Company has state-of-the-art facilities that adhere to the strict quality specifications and standards of the Food and Drug Authority, Good Manufacturing Practices, and ISO certifications. In terms of resources, the Company has a large manufacturing capacity through 3 manufacturing facilities that include research and development departments, in addition to a network of 4 warehouses that supply its products to all parts of the Kingdom. Avalon Pharma has continuously invested in additional production lines and capitalized on market opportunities by gradually increasing production capacity in response to the growing demand for medicines and medical supplements.

In addition, the manufacturing facilities are equipped with laboratories and quality control departments that employ an integrated and continuous approach to managing production processes and monitoring all stages of manufacturing to ensure accuracy, speed and high quality of the final products. Avalon Pharma devotes strict attention to product quality, and the Company's quality control process focuses on identifying the best licensed suppliers of various chemical raw materials, active ingredients, packaging materials and supplies to ensure compliance with the required and specified conditions and standards. Avalon Pharma routinely inspects its raw materials and finished products. The laboratories located within the factory are equipped with the latest devices and advanced analytical techniques to ensure the maximum quality of its products.

- **Proven track record in launching pioneering products across diverse therapeutic categories**

Avalon Pharma in the Kingdom of Saudi Arabia has a product range that includes more than 250 products falling under more than 70 brands within several therapeutic categories, including medicines and preparations used in the treatment of skin diseases, skin creams and skin care preparations, respiratory system medicines, nervous system medicines, and systemic medicines, Gastrointestinal, musculoskeletal drugs, in addition to a wide variety of drugs and preparations in other therapeutic categories including sexual system drugs, diabetes, cardiovascular drugs, anti-infectives, anti-parasitic drugs, pain relievers, antiseptics, and women's and men's health drugs. In addition, work is underway to register 19 new products with the Food and Drug Authority, including 4 skin medicines, 4 respiratory medicines, 1 digestive system medicine, 1 musculoskeletal medicine, and 9 various medicines within the Company's other therapeutic categories, as the registration period generally ranges between 12 months up to 18 months.

- **A leading company in the market of dermatological products, medicines and skin care products**

Avalon Pharma leads the market for dermatological products, medicines, and skin care products during the year 2022G, with a market share amounting to 8.9% of the total market size, according to the results of the market study prepared by

Euromonitor International, as its revenues from this category constituted 49.6% of the Company's total revenues.

- **The Company's ability to expand geographically on a large scale**

The Company's business has expanded to many foreign markets in the Gulf countries, the Middle East and Africa, which include Kuwait, the Emirates, Jordan, Iraq, Yemen, Bahrain, Lebanon, Egypt, Sudan and Libya. It also seeks to develop the volume of business outside the Kingdom and export its products to new countries such as Morocco, Indonesia and Malaysia in the coming years.

- **Experienced leadership and experienced management team**

Avalon Pharma has a distinguished executive management team with deep experience in the field of pharmaceutical industry. The team members have high competence and full knowledge of the characteristics of developing and marketing the Company's products and managing related operations. The Operations Department also includes many specialized employees including pharmacists, chemists and scientists with extensive experience in the pharmaceutical industry and research and development. All departments in the Company work in an integrated manner to develop the Company's business and achieve the strategy of management and shareholders in the short and long term.

- **Distinctive relationship with customers**

Avalon Pharma has developed strong business relationships with its clients in the government and the private sectors, including hospitals, clinics, pharmacy chains (pharmacies with a large number of branches), major pharmacies, regional distributors and supermarkets, and is focused on strengthening its relationships directly with doctors and pharmacists on an ongoing basis.

Summary of key developments

Table No. (7): Summary of key developments

Year	Event
1998G	Middle East Pharmaceutical Industries Company was established as a limited liability Company under the name « Middle East Chemical Products Factory Company »
2001G	The Company's capital was increased from (500,000) five hundred thousand Saudi riyals to (1,500,000) one million five hundred thousand Saudi riyals
2003G	The construction of the Avalon Factory (1) in the Second Industrial City in Riyadh has been completed, with production lines for creams, liquid medicines and disinfectants, as well as a research and development department.
2004G	The Company began export and distribution operations outside the Kingdom in the Middle East.
2006G	The Company's name was changed from « Middle East Chemical Products Factory Company » to « Middle East Pharmaceutical Industries Company ».
2007G	The production capacity of the liquid medicine production lines at Avalon Factory (1) has been increased to reach 9,200,000 packages annually.
2009G	The Company's capital was increased from (1,500,000) one million five hundred thousand Saudi riyals to (6,000,000) six million Saudi riyals.
2010G	The Company's export sales extended to the UAE, Bahrain, Iraq, Jordan, Kuwait, Oman, Sudan and Yemen.
2010G	The production capacity of the cream production lines at Avalon Factory (1) has been increased to 12,900,000 tubes annually.
2010G	The Company's capital was increased from (6,000,000) six million Saudi riyals to (30,000,000) thirty million Saudi riyals
2011G	the Company's capital was increased from (30,000,000) thirty million Saudi riyals to (60,000,000) sixty million Saudi riyals
2013G	Solid pharmaceutical production lines were added at Avalon Plant (1) with a production capacity of 8,100,000 strips annually.
2015G	The construction of Avalon Factory (3) with disinfectant production lines has been completed, in addition to Avalon Warehouse (2) and a special research and development department within the Water and Energy City in Riyadh.
2018G	The Company merged with the Middle East Distribution Company with all its branches (3 branches).
2019G	The Company entered into its first supply and licensing agreement with the Greek Company Elpin Pharmaceutical Inc., through which Avalon supplies and distributes the Greek Company's products in the Kingdom of Saudi Arabia.
2019G	Avalon Pharma has established its UK subsidiary Avalon Pharma UK Holdings Limited.
2020G	Skin and cosmetics production lines were added at Avalon Factory (1) with a production capacity of 3,400,000 tubes annually.
2020G	The production capacity of the disinfectants production lines at Avalon Factory (3) has been increased to 2,937,600 Box annually.
2021G	The Company invested in (783,805) seven hundred and eighty-three thousand eight hundred and five shares (about 0.02% of the total number of shares) in the American Company Columbia Care Inc. (a public joint stock Company listed on the NEO stock market in Canada).
2022G	Avalon Pharma built a new main warehouse « Avalon Warehouse (4) », and Avalon Warehouse (2) was converted into a new factory and established with production lines for creams, liquid medicines and solid medicines, as it is expected to begin commercial production during the second quarter of 2024G.
2022G	The Company's capital was increased from (60,000,000) sixty million Saudi riyals to (200,000,000) two hundred million Saudi riyals.
2022G	The Company was converted into a joint stock Company.

Source: Avalon Pharma Company

Summary of Market Study

The information contained in the Prospectus about the market and the sector is derived from the market study report prepared by Euromonitor International Limited («the **Market Study Advisor**») exclusively for the Company between February and May 2023G. The Market Study Advisor is headquartered in London, United Kingdom. For more details about the Market Study Advisor, please visit its website (www.euromonitor.com).

Euromonitor International has given and has not withdrawn its written consent to publish the results of the market study in the Prospectus as of the date of its publication, and neither it nor any of its employees or affiliated persons has any shares or interest of any kind in the Company or any of its subsidiaries.

Increasing investments in Saudi Arabia is driven by growing need for medical security and self-sufficiency in the healthcare and medicine and medicinal supplements sector

Consumer expenditure on health in the Kingdom maintained an uptrend over the historical period, achieving a growth of 5.8% between 2021 and 2022 (SAR22 billion, USD5.9 billion). This trend is expected to continue into the forecast period, with a CAGR of 4.3%, translating to SAR26.4 billion (USD7 billion) by 2027. In order to meet the growing demand, Saudi Arabia is seeking to improve its non-oil revenue sources through economic diversification by encouraging investments in achieving medicine and medical supplements security, as well as the expansion of several industries for local manufacturing, logistics, and transportation. The Kingdom announced plans to invest SAR227.7 billion (USD60.7 billion) in healthcare infrastructure in 2021, with private sector participation increasing from 40% to 65%. In an effort to reduce reliance on imports and attain self-sufficiency, Saudi Arabia is actively promoting investments in local medicine and medical supplements production and aiming to increase its contribution to the GDP. As a result, the medicine and medical supplements market in Saudi Arabia is expected to register a strong CAGR of 5.0% from SAR34.5 billion (USD9.2 billion) in 2022 to SAR44.0 billion (USD11.7 billion) in 2027.

Saudi Arabia imports majority of its medicines and medicinal supplements from the United States, Europe, China, and India. Saudi Arabia's Vision 2030 seeks to produce 40% of its total medicine and medicinal supplements domestically. In line with this trend, AstraZeneca and Pfizer are among the global companies with which the Kingdom has actively facilitated technology and research-driven partnerships. In response to the localization objectives of Saudi Vision 2030, local manufacturers have prioritised the production of economical generics. This signifies higher chance of not having any supply chain shortages due to local supply, as a benefit too. Increasing incentives to health professionals by the Ministry of Health to recommend local brands, combined with the government's focus on reducing expenditure on healthcare by cutting costs on imported drugs through pricing protective measures and updated limited regulations on retailer's profits on the sale of registered drugs, have led to the rapid growth of generics drugs. This has prompted companies such as Avalon Pharmaceutical to extend their portfolio to include both new and existing product lines in order to capitalize on the drive for localization.

Focus on improving health infrastructure, mandatory insurance policies and private sector participation are the key catalysts for the growth of healthcare and the medicine and medical supplements market

Saudi Arabia's public expenditure on healthcare increased to an estimated SAR138.0 billion (USD36.8 billion) in 2022, with over 500 hospitals and 75,000 beds, to further expand access to high-quality infrastructure. Additionally, to the allocated budget, under Vision 2030, which has 'Health Sector Transformation' as one of its 'Vision Realisation Programs, the Saudi Arabian government plans to invest approximately SAR295 billion (USD78.7 billion) towards the development of the nation's healthcare infrastructure. Furthermore, to the public spending on improving and advancing the healthcare sector, the government also aims to boost private sector participation in the sector by encouraging investments. It is expected that the role of the private sector will expand its total investment in the healthcare sector from 40% to 65% by 2030, by privatizing 290 hospitals and 2,300 primary health care facilities. Growing privatisation is also expected to support technological upgradation of the healthcare system in the country.

Implementation of mandatory health insurance by the Kingdom in 2016 ensured that all private sector employees and their families must be covered under this program. The Health Insurance programme in Saudi Arabia has been instrumental in reducing out-of-pocket health expenditures and increasing the proportion of individuals with private health insurance. The population aged 19-64 years (accounting for 67.2% of the population) is the primary driver of the country's demographic expansion which is projected to increase at a CAGR of 2.2%, reaching 24.1 million by 2027. This demographic, coupled with the high prevalence of diabetes (16.9% expected in 2027) and obesity (43.2% expected in 2027), is likely to drive demand for the category of medicines and medical supplements. Further to this, demographic shifts (i.e., more ageing population), rise in non-communicable diseases, expansion of healthcare sector, rising advancements (both in treating patients via procedures and/or medicines) is expected drive the growth within the medicine and medical supplements sector to increase at a CAGR of 5% to reach SAR44 billion (USD11.7 billion) during 2022-2027.

As irritated skin and hair loss issues become more prevalent, emollients & protectives, hair loss treatments, topical anti-acne agents, and wound healing agents are contributing to the growth of dermatologicals

The dermatologicals category grew at a CAGR of 8.9% between 2018 and 2022, reaching SAR2.5 billion (USD0.67 billion) in 2022. Subcategories such as topical corticosteroids, anti-acne, hair loss treatments, wound healing agents and emollients & protectives (collectively contributing ~61% of overall dermatologicals) are contributing to the expansion of dermatologicals as irritated skin and hair loss problems become more widespread in the Kingdom. Consumer expenditure on dermatologicals products increased due to growing interests in general skin health, weather conditions, skin disease awareness (including early detection of skin cancer). Increased sales of dermatologicals through pharmacy stores as well as online platforms during the pandemic positively impacted the category's demand over 2018-22. Continuing with this trend, the demand for specialised dermatological products to treat conditions such as hair loss, dermatitis, and skin irritations is expected to drive the market to SAR3.5 billion (approximately USD0.93 billion) at a CAGR of 7.1% between 2023-27. In 2022, Avalon Pharmaceuticals ranked first with an 8.9% (calculated at Retail Selling Price). The company reached net revenues of SAR121 million (USD32.3 million) in 2022 in dermatological products. The company resonates with consumers and stakeholders as the foremost recalled brand for dermatological products. Avalon Pharmaceuticals has a competitive advantage in the dermatology industry due to its extensive selection of hair loss remedies, anti-hyperpigmentation, wound healing, and skin-whitening products.

Weather conditions affecting skin barrier health, increased awareness of skin health, and demand for clean beauty all contributed to the growth of the dermocosmetics market

The growth of dermocosmetics is primarily attributable to an increase in disposable income, an increase in women's labour force participation, weather conditions influencing skin barrier health, an increase in skin health awareness the need to maintain healthy skin over the long run as part of holistic health, and a demand for clean beauty. Between 2018 and 2022, the market for dermocosmetics grew at a CAGR of 2.2%, reaching SAR237 million (USD63.2 million) in 2022. The escalating severity of climate change which is causing the summers to become hotter and the winters to become colder during the forecast period is necessitating the development of more effective and efficient solutions to protect skin barriers from dryness, hyperpigmentation, acne, and uneven skin tones. The category is dominated by OTC products where there is an increased use of the internet, specifically social media to gather information about products and ways to apply them. During the forecast period, Dermocosmetics are anticipated to experience a steady increase in retail value, capitalizing on growing income levels, expanding retail landscape and anticipated increase in skin irritations or sensitivity (arising due to acne, pigmentation, dryness, and others) due to the country's harsh climatic conditions. Between 2022 and 2027, the category is projected to reach SAR340 million (USD90.7 million) and grow at a CAGR of 7.5%.

Hygiene products (hand sanitizers) and oral care market which is largely driven by COVID-19 prevention and the Saudi government's educational efforts to promote high standards of hygiene is expected to show a moderate growth during 2022-2027 as consumer caution normalizes

The market for hygiene products (hand sanitizers) and oral care is primarily driven by the adoption of preventative measures to avoid contracting COVID-19, as well as the Saudi government's educational efforts to raise awareness about the significance of maintaining good hygiene practices. This will remain a basic requirement to maintain holistic hygiene for safe and healthy society. Organisations like WHO (World Health Organisation) define hygiene as 'conditions and practices that help to maintain and prevent the spread of diseases'. Between 2018 and 2022, the market for hygiene products (hand sanitizers) and oral care grew at a CAGR of 11.4%, reaching SAR1.5 billion (USD400 million) in 2022. The frequency of purchasing hygiene products is lower than it was during the pandemic, and prices are more competitive as a result of the expansion of product options. By 2027, total hygiene products (hand sanitizers) and oral care sales are projected to reach SAR1.6 billion (USD426.7 million), expanding at a more moderate 1.8% CAGR between 2022 and 2027 as consumer caution normalizes.

Environmental changes, smoking, and early detection of chronic respiratory disorders are likely to boost demand for respiratory products

Increasing air pollution, dusty weather, the continued high prevalence of smoking among younger age groups, growing awareness of respiratory diseases such as asthma and Chronic Obstructive Pulmonary Disease (COPD), and the increase in the elderly/geriatric population are the primary factors driving the growth of the respiratory disease category. The category grew at a 4.9% CAGR between 2018 and 2022, reaching SAR3.1 billion (USD0.83 billion) in 2022. Various factors, such as early diagnosis of asthma and COPD patients, enhanced healthcare systems, and broader access to medications, are anticipated to drive this growth during the forecast period 2023-2037. The total sales of respiratory products are projected to reach SAR4.5 billion (USD1.2 billion) in 2027, a 7.3% CAGR between 2022 and 2027. Avalon Pharmaceuticals ranks fourth in Saudi Arabia's respiratory market with a market share of 9.1% (calculated at Retail Selling Price). The company reached SAR 66.4 million (USD 17.7 million) net revenues of respiratory category in 2022. Avalon Pharma's large assortment of nasal decongestants, cough & cold preparations, and anti-asthma and COPD products, available through healthcare and health insurance services with a doctor's prescription or OTC, gives it an advantage in the respiratory market.

The demand for central nervous system (topical anaesthetics) medicines is growing in the Kingdom, exacerbated partially by the demand for cosmetic procedures and minor injuries.

The market size for central nervous system (topical anesthetics) in the Kingdom grew at a CAGR of 6.7% between 2018 and 2022 reaching SAR85 million (USD23 million). It is expected to report a CAGR growth of 6.3% over 2022-2027. The market has been and is likely to be driven primarily by cosmetic and dental procedures, and minor injuries requiring stitches. Avalon's Prila is the only topical anesthetic on the market with the combination of lidocaine and prilocaine, which is its unique selling point as there are no alternative in the market, thus justifying its 61% share in value terms in 2022.

High obesity rates and unhealthy eating habits among the population, particularly the excessive consumption of fast-food products, are the primary growth drivers for the gastro-intestinal category in Saudi Arabia

This growth of the gastro-intestinal category is driven by high obesity rates and unhealthy eating practices, particularly the excessive consumption of fast food and lack of daily/ regular exercise. Lifestyle diseases such as heart ailments require more consistent long-term medicine taking, which may lead to gastro-intestinal upset and hence consumption of regular gastro-intestinal medicines too. The overall size of the gastro-intestinal market grew at a CAGR of 12% over 2018-22 reaching SAR2,101 million (USD560 million). In Saudi Arabia, gastro-intestinal diseases, and disorders such as gastroesophageal reflux disease, inflammatory bowel disease, and irritable bowel syndrome are prevalent and on the rise. The rising incidence of gastro-intestinal disorders will drive the category's growth over the forecast period. Between 2023 and 2027, the gastro-intestinal market in Saudi Arabia is anticipated to expand at a CAGR of 6.7%.

High incidence of back pain, cervical pain, osteoarthritis, and other similar ailments is expected to drive the growth muscular skeletal product market in Saudi Arabia

Between 2018 and 2022, the market for muscular skeletal (MSK) diseases in the Kingdom expanded at a CAGR of 6% reaching SAR2,869 million (USD765 million). In Saudi Arabia, the primary causes of MSK diseases and disorders are back pain, neck pain, osteoarthritis, and other MSK disorders. The incidence of MSK disorders is rising at a moderate rate. This may be a result of changing demographics, lack of nutrient-dense food consumption, sedentary lifestyle, lack of movement or stretching and sitting for long hours and aging, as the preponderance of MSK disorders are more prevalent in older age groups. MSK cases are anticipated to maintain their present momentum, in direct correlation with ageing demographics and the absence of significant innovation in the field. Between 2022 and 2027, the musculoskeletal market in Saudi Arabia is projected to expand at a CAGR of 6.5%.

Avalon Pharmaceutical is employing a comprehensive growth plan across medicine and medicinal supplements categories in Saudi Arabia

Avalon Pharmaceuticals is one of the leading players in the medicines and medicinal supplement market in Saudi Arabia, with total net revenues of SAR276.7 million (USD73.8 million), of which 49.7% came from dermatologicals (including dermocosmetics), 24% from respiratory, and 7.8% from topical anesthetics products within CNS in 2022 (all shares are calculated at Retail Selling Price). Avalon Pharmaceuticals is a well-known generics manufacturer in Saudi Arabia, with a focus on producing high-quality, solution-effective, and cost-effective products. Providing physicians with medical education, and scientific support, Avalon Pharmaceuticals is well-established in public and private hospitals and polyclinics. Avalon Pharmaceutical's in Saudi Arabia has a large manufacturing capacity and a network of 4 warehouses throughout Saudi Arabia, with 3 manufacturing facilities with R&D capabilities. In the historic period, 2018-22, Avalon invested in additional production lines and increased production capacity in response to rising demand. By 2026, the company intends to expand its research and development and production capacities in Saudi Arabia to develop general injectables and ophthalmological products. By utilizing its existing manufacturing capabilities, Avalon can manufacture for large pharmacy chains, with the possibility of manufacturing for private label across multiple categories. Avalon is committed to investing in innovative therapeutic areas for the future. With planned investments in manufacturing, enhancing R&D, portfolio expansion in existing categories, and new product launches in dermatology, respiratory, diabetes, gastro-intestinal and musculoskeletal sectors, Avalon Pharmaceuticals is well positioned to become a market leader medicine and medical supplements market in Saudi Arabia.

Summary of Financial Information

The summary of the Company's financial statements and key performance indicators below should be read in conjunction with the audited consolidated financial statements for the fiscal years ending December 31, 2020, 2021, and 2022G, including the accompanying notes, and the reviewed consolidated financial statements for the six-month periods ended on June 30, 2022, and 2023G, including the accompanying notes therein, which were prepared in accordance with the International Financial Reporting Standards (IFRS) approved in the Kingdom of Saudi Arabia and other standards and issuances approved by the Saudi Organization for Chartered and Professional Accountants (SOCPA), and included in Section No. (19) «The Financial Statements and Auditors Report» of this Prospectus. The financial information and key performance indicators of the Company provided below must be read in conjunction with the information provided in Section No. (2) «Risk Factors» and Section No. (6) «Financial Information, Management Discussion and Analysis» of this Prospectus before making any decision related to investing in the offering shares. Decision making should not be based solely on this summary. The consolidated financial statements for the fiscal years ending on December 31, 2020G and 2021G were extracted from the comparative financial information presented in the audited consolidated financial statements for the fiscal years ending on December 31, 2021G and 2022G, while the reviewed consolidated financial statements for the six-month period ending on June 30, 2022G were extracted from the information from the comparative financial statements presented in the reviewed financial statements for the six-month period ending on June 30, 2023.

Table No. (8): Summary of the consolidated comprehensive income statement for the fiscal years ending on December 31, 2020, 2021, and 2022, and for the six-month periods ending on June 30, 2022, and 2023.

Statement of Income (SAR)	Fiscal year ending on 31 December 2020 (Audited)	Fiscal year ending on 31 December 2021 (Audited)	Fiscal year ending on 31 December 2022 (Audited)	Six-month period ending On June 30, 2022 (Reviewed)	Six-month period ending On June 30, 2023 (Reviewed)
Revenues	301,660,225	287,222,069	302,662,218	132,890,356	148,519,022
Cost of revenue	(125,282,161)	(112,643,860)	(118,371,401)	(55,068,234)	(62,115,272)
Gross profit	176,378,064	174,578,209	184,290,817	77,822,122	86,403,750
Selling and distribution expenses	(60,226,046)	(62,261,218)	(70,419,883)	(35,770,182)	(39,968,744)
General and administrative expenses	(34,817,850)	(37,558,079)	(43,404,741)	(18,707,271)	(22,930,462)
(Impairment loss) / Reversal of impairment loss on trade receivables	(2,000,000)	-	(130,000)	-	328,606
Other revenues/(expenses).	(46,948)	(2,618,186)	168,366	(87,730)	(502,771)
Operating profit	79,287,220	72,140,726	70,504,559	23,256,939	23,330,375
Financing costs	(1,474,327)	(1,680,839)	(5,481,493)	(2,705,074)	(2,782,615)
Profit before Zakat	77,812,893	70,459,887	65,023,066	20,551,865	20,547,760
Zakat expense	5,000,000	4,176,810	5,571,317	(2,875,002)	(3,000,000)
Profit of the year	72,812,893	66,283,077	59,451,749	17,676,863	17,547,760

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022, and the reviewed consolidated financial statements for the six-month period ended on 30 June 2023G

Table No. (9): Summary of the consolidated statement of financial position for the fiscal years ending on December 31, 2020, 2021, and 2022, and for the six-month period ending on June 30, 2023.

Statement of Financial Position (SAR)	As of December 31, 2020 (Audited)	As of December 31, 2021 (Audited)	As of December 31, 2022 (Audited)	As of June 30, 2023 (Reviewed)
Total current assets	225,198,705	269,365,677	292,515,243	272,627,807
Total Non-current assets	145,434,025	147,562,086	150,736,070	153,192,906
Total assets	370,632,730	416,927,763	443,251,313	425,820,713
Total Current liabilities	84,764,552	117,390,476	132,390,925	120,561,414
Total Non-current liabilities	33,439,313	32,456,186	30,586,755	27,763,070
Total Liabilities	118,203,865	149,846,662	162,977,680	148,324,484
Total Equity	252,428,865	267,081,101	280,273,633	277,496,229
Total equity and liabilities	370,632,730	416,927,763	443,251,313	425,820,713

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.. and the reviewed consolidated financial statements for the six-month period ended on 30 June 2023G

Table No. (10): Summary of the consolidated statement of cash flows for the fiscal years ending on December 31, 2020, 2021, and 2022, and for the six-month periods ending on June 30, 2022 and 2023G.

Statement of Cash Flows (SAR)	As of December 31, 2020 (Audited)	As of December 31, 2021 (Audited)	As of December 31, 2022 (Audited)	Six-month period ending On June 30, 2022 (Reviewed)	Six-month period ending On June 30, 2023 (Reviewed)
Net cash generated from operating activities	45,371,967	41,913,007	68,236,676	7,964,208	30,233,687
Net cash used in investing activities	(62,456,072)	(24,800,352)	(19,983,230)	(6,876,920)	(10,886,560)
Net cash generated from (used in) financing activities	12,874,044	(14,000,949)	(43,498,176)	(8,217,381)	(33,280,428)
Cash and cash equivalents at the end of the year	15,923,866	19,035,572	23,790,842	11,905,479	9,857,541

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.. and the reviewed consolidated financial statements for the six-month period ended on 30 June 2023G

Table No. (11): key Performance Indicators for the fiscal years ending on December 31, 2020, 2021, and 2022, and for the six-month periods ending on June 30, 2022 and 2023G.

Key Performance Indicators	As of December 31, 2020 (Audited)	As of December 31, 2021 (Audited)	As of December 31, 2022 (Audited)	Six-month period ending On June 30, 2022 (Reviewed)	Six-month period ending On June 30, 2023 (Reviewed)
Revenue growth rate	N/A	(4.79%)	5.38%	4.66%	11.76%
Cost of revenue as a percentage of revenue	(41.53%)	(39.22%)	(39.11%)	(41.44%)	(41.82%)
Selling and distribution expenses as a percentage of revenue	(19.96%)	(21.68%)	(23.27%)	(26.92%)	(26.91%)
General and administrative expenses as a percentage of revenues	(11.54%)	(13.08%)	(14.34%)	(14.08%)	(15.44%)
Gross profit margin	58.47%	60.78%	60.89%	58.56%	58.18%
Net profit margin	24.14%	23.08%	19.64%	13.30%	11.82%
Profit growth rate for the year/period	لا ينطبق	(8.97%)	(10.31%)	(24.68%)	(0.73%)
Ratio of revenues to total assets	81.39%	68.89%	68.28%	30.84%	34.88%
Ratio of total liabilities to total equity	46.83%	56.11%	58.15%	63.60%	53.45%
Ratio of total liabilities to total assets	31.89%	35.94%	36.77%	38.88%	34.83%
Ratio of total assets to total equity	146.83%	156.11%	158.15%	163.60%	153.45%
Current Ratio (times)	2.66	2.29	2.21	2.08	2.26
Return on assets ratio	19.65%	15.90%	13.41%	4.10%	4.12%
Return on equity ratio	28.84%	24.82%	21.21%	6.71%	6.32%

Source: Taken from the audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022, and the reviewed consolidated financial statements for the six-month period ended on 30 June 2023G

Summary of Risk Factors

A. Risks related to the Company's activity and operations

1. Risks related to non-compliance with the Companies Law and the Company's bylaws
2. Risks related to the issuance of the new Companies Law
3. Risks related to the lack of experience in managing listed joint stock companies
4. Risks related to non-compliance with the Capital Market Law and its Implementing Regulations
5. Risks of management decisions
6. Risks related to employee errors or misconduct
7. Risks of difficulty in recruiting people with experience in the health sector
8. Credit related risks
9. Risks related to credit facilities and financing agreements
10. Risks related to Liquidity
11. Risks related to the availability of financing in the future
12. Risks related to the Company's reliance on its shareholders to obtain financing
13. Risks related to the Company's payables
14. Risks related to the occurrence of natural disasters
15. Risks related to operation and unexpected business cessation
16. Risks related to inventory
17. Risks related to non-compliance with quality standards and specifications required by customers
18. Risks related to storage
19. Risks related to the breakdown of machinery and equipment, the mechanism of use, and manufacturing defects
20. Risks of rising energy and water prices
21. Risks related to health and safety policies
22. Risks related to non-issuance or non-renewal of licenses, permits and regulatory certificates
23. Risks related to potential legal Zakat entitlements and additional claims
24. Risks related to reliance on major suppliers
25. Risks related to relying on distributors outside the Kingdom
26. Risks related to standardizing the purchase of medicines, devices and medical supplies
27. Risks related to the volume of Government spending on the health sector
28. Risks related to non-compliance with the standards of the Food and Drug Authority and other regulatory bodies
29. Risks related to the withdrawal of the Company's products from the market
30. Risks related to the pricing policy of pharmaceutical products
31. Risks related to currency exchange rate fluctuations
32. Risks related to the concentration of the Company's revenues
33. Risks related to Customer concentration
34. Risks related to protecting trademarks and property rights
35. Risks related to lawsuits and fines
36. Risks related to the adequacy of insurance coverage
37. Risks related to transactions with related parties
38. Risks related to the inability to implement the Company's strategic plan
39. Risks related to business expansion outside the Kingdom
40. Risks related to operational costs and expenses

41. Risks related to operating systems and information technology
42. Risks related to Saudization requirements
43. Risks related to Government fees applied to non-Saudi employees
44. Risks related to reliance on non-Saudi employees
45. Risks related to reliance on key employees
46. Risks related to existing and future sales contracts and their implementation
47. Risks related to potential liabilities
48. Risks related to the Coronavirus (Covid-19) pandemic
49. Risks related to Privatization of the Health Sector
50. Risks related to research, development and new products
51. Risks related to lease contracts
52. Risks related to the NUPCO's tender
53. Risks related to the agreement to develop commercial and marketing work and raise the level of service with Al-Dawaa Medical Services Company
54. Risks related to the lack of signed contracts
55. Risks related to not documenting employees' employment contracts electronically
56. Risks related to acquisitions, mergers or investment in the future
57. Risks related to the operations of the subsidiary «**Avalon Pharma UK Holdings Limited**» and its subsidiaries

B Risks related to the market and sector in which the Company operates

1. Risks related to the Kingdom's economic performance
2. Risks related to political and economic instability in the Middle East region
3. Risks related to the competitive environment
4. Risks of growth opportunities
5. Risks related to non-compliance with current regulations and laws and/or the issuance of new regulations and laws
6. Risks related to value added tax
7. Risks related to fluctuations in supply and demand
8. Risks related to withdrawing licenses
9. Risks related to interest rate fluctuations
10. Risks related to changing the mechanism for calculating Zakat and income tax
11. Risks related to the imposition of new fees or taxes
12. Risks related to adapting to customer requirements
13. Risks related to keeping pace with developments in the health sector

C. Risks related to the Offering Shares

1. Risks related to actual control by selling shareholders
2. Risks related to the liquidity of the Offering Shares
3. Risks related to the lack of a previous market for the Company's shares and the fluctuation of the share price
4. Risks related to non-distribution of dividends
5. Risks related to selling or offering additional shares in the future
6. Risks related to selling a large number of shares in the market after the Offering process
7. Risks related to the inability of non-qualified foreign investors to acquire shares directly
8. Risks related to fluctuations in the price of shares after the Offering

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01

Terms and Definitions

1- Terms and Definitions

The following table provides a list of definitions and abbreviations for terms used in this Prospectus:

Term or Abbreviation	Definition
The Company, Issuer or Avalon Pharma	Middle East Pharmaceutical Industries Company, a Saudi joint stock company.
Management, Senior Management or Executive Management	Management of the Middle East Pharmaceutical Industries Company.
Board or Board of Directors	The Company's Board of Directors whose names appear on page No. (iv) of this Prospectus.
Bylaws	Bylaws of The Company.
Ministry of Commerce	Ministry of Commerce in the Kingdom of Saudi Arabia.
Offering	The Initial Public Offering of (6,000,000) six million ordinary shares of the Company's shares, representing 30.0% of the Company's capital, for the purpose of registering and listing in the capital market.
Offering Shares	(6,000,000) Six million ordinary shares of the Company's shares.
Offering Price	(82) Eighty two Saudi Riyals per share.
Share	An ordinary share at a nominal value of (10) ten Saudi Riyals .
Nominal Value	The nominal value of the company's shares is (10) ten Saudi Riyals per share.
Shareholder or Shareholders	Holder of shares or shareholders of the Company at any time.
Shares of existing shareholders before the Offering	100.0% of the total shares of the Company's capital, amounting to (20,000,000) twenty million ordinary shares of equal value.
Shares of existing shareholders after the Offering	70.0% of the total shares of the Company's capital, amounting to (14,000,000) fourteen million ordinary shares of equal value.
Selling Shareholders	The Company's Shareholders whose names appear on page No. (xxii) of this Prospectus.
Substantial Shareholders	They are the shareholders who own 5.0% or more of The Company's Shares, and whose names appear on page No. (xxii) of this Prospectus.
Voting Rights	Voting rights in the general assemblies of the Company. The Company has only one category of shares, and no shareholder has any preferential voting rights. Each share Gives its holder the right for one vote, and each shareholder shall have the right to attend and vote in the General Assembly. The shareholder may authorize any other shareholder, other than members of the Company's Board of Directors or employees; to act on his behalf in attending the meetings of the General Assembly and voting on its decisions.
Person	A natural or legal person.
Investor	Each person invests in the Offer Shares.
Subscriber	Each Investor who applies for subscription in accordance with the Subscription Terms and Conditions.
Subscription Application	Subscription Application form that Investors must fill out and submit to the Lead Manager or Receiving Agent when they intend to subscribe.
Prospectus	This Prospectus prepared by the Company, which is the document required to offer the Company's shares for subscription and to register them with the Authority for the purpose of listing them in the Capital Market in accordance with the Rules on the Offer of Securities and Continuing Obligations
Offering Proceeds	The total value of the subscribed shares is amounting to (492,000,000) four hundred ninety two million Saudi Riyals.
Net Offering Proceeds	The net Offering Proceeds after deducting the Offering expenses.
Offering Period	The period starting from Tuesday 18/07/1445H (corresponding to 30/01/2024G) and continuing until the end of Thursday 20/07/1445H (corresponding to 01/02/2024G).
Closing Date	It is the end date of the Offering Period, which ends on Thursday 20/07/1445H (corresponding to 01/02/2024G).
The Exchange	The market in which The Company's shares are traded and which has been registered and accepted for listing under the «Rules on the Offer of Securities and Continuing Obligations» and «Listing Rules» in the Kingdom of Saudi Arabia.

Term or Abbreviation	Definition
Advisors or Company Advisors	They are the Company's Advisors regarding the Offering of the Company's shares in the Capital Market, whose names appear on pages No. (vii) and (viii) of this Prospectus
Financial Advisor	Aldukheil Financial Group Company.
Bookrunner	Aldukheil Financial Group Company.
Lead Manager	Alinma Investment Company.
Underwriter	Alinma Investment Company.
Receiving Agents	Alinma Bank and of the Saudi National Bank.
Kingdom or Saudi Arabia	Kingdom of Saudi Arabia.
Government	Government of the Kingdom of Saudi Arabia.
Capital Market Authority or the Authority or CMA	The Capital Market Authority of the Kingdom of Saudi Arabia.
Saudi Tadawul Company, or the Exchange	The Saudi Stock Exchange (Saudi Tadawul)
Tadawul	The automated system for trading shares in the Saudi Stock Exchange.
Ministry of Health	Ministry of Health, in the Kingdom of Saudi Arabia.
General Authority for Food and Drug Administration	The General Authority for Food and Drug Administration, in the Kingdom of Saudi Arabia.
Ministry of Commerce	The Ministry of Commerce in the Kingdom of Saudi Arabia.
SOCPA	Saudi Organization for Chartered and Professional Accountants.
Zakat, Tax and Customs Authority	Zakat, Tax and Customs Authority in the Kingdom of Saudi Arabia is one of the government agencies that are organizationally linked to the Minister of Finance, and it is the agency entrusted with the work of Zakat and Tax collection.
Ministry of Human Resources and Social Development	Ministry of Human Resources and Social Development in the Kingdom of Saudi Arabia.
Ministry of Municipal and Rural Affairs and Housing	Ministry of Municipal and Rural Affairs and Housing in the Kingdom of Saudi Arabia.
Civil Defense	General Directorate of Civil Defense in the Kingdom of Saudi Arabia.
Escrow Account	An account with a Receiving Agent licensed to operate in the Kingdom in which to deposit the Offering proceeds. After the Offering process is completed, it is transferred to the accounts of the Selling Shareholders after deducting the Offering Expenses each according to his number of shares.
Fiscal year/fiscal years	It is the period of time for presenting the results of the entity's activity and whose beginning and end are specified in the Memorandum or Articles of Association of the concerned company. Noting that The Company's fiscal year ends on December 31 of each Gregorian year.
Financial Statements	The audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022, and the reviewed consolidated financial statements for the six-month periods ending on June 30, 2022 and 2023G, which were prepared in accordance with the International Financial Reporting Standards (IFRS) approved by the Saudi Organization for Chartered and Professional Accountants (SOCPA).
Listing	Listing The Company's shares in the Capital market and approving the trading of its shares
Investor or investors	The two segments of investors are: Tranche (A): Participating Parties: This segment includes the categories that are entitled to participate in the Book Building process in accordance with the instructions for Book Building (see Section No. (1) «Terms and Definitions» of this Prospectus). Tranche (B): Individual Subscribers: This tranche comprises Saudi natural persons, including any Saudi female divorcee or widow with minor children from a marriage to a non-Saudi individual, who may subscribe for her own benefit or in the names of her minor children, on the condition that she proves that she is a divorcee or widow and the mother of her minor children, any non-Saudi natural person who is resident in KSA, or GCC nationals, in each case who have a bank account, and are entitled to open an investment account with one of the Capital market institutions.

Term or Abbreviation	Definition
Public	Persons other than the following: <ul style="list-style-type: none"> • Affiliates of the Issuer; • Substantial Shareholders of the Issuer; • Directors and Senior Executives of the Issuer; • Directors and senior executives of the Affiliates of the Issuer; • Directors and senior executives of Substantial Shareholders of the Issuer; • Any relatives of the persons referred to in (1, 2, 3, 4, or 5) above; • Any company controlled by any person referred to in (1, 2, 3, 4, 5 or 6) above; and • Persons acting in concert with a collective shareholding of (5%) or more of the class of Shares to be listed.
Subscribers	Participating Parties and Individual Subscribers.
Participating Parties	The Parties that are entitled to participate in the process of book building are: <ol style="list-style-type: none"> 1. Public and private funds that invest in securities listed on the Saudi Stock Exchange if such fund's terms and conditions permit this, in accordance with the provisions and restrictions stipulated in the Investment Funds Regulations and the Instructions of Book Building and allocation of shares in the IPOs. 2. Capital Market Institutions licensed to deal as a principal, provided that the provisions set out in the Prudential Rules are adhered to when submitting a Participation Application Form 3. Clients of a Capital Market Institution authorized by the CMA to conduct management activities in accordance with the provisions and restrictions set forth in the Book Building Instructions and allocation of shares in the IPOs. 4. Legal persons who may open an investment account in the Kingdom and an account with the Depository Center, with the exception of non-resident foreign investors who are not Foreign Investors in accordance with the rules governing the investment of foreign financial institutions in listed securities, in accordance with Authority Circular No. (6/05158), dated 11/08/1435H (corresponding to 09/06/2014G) issued based on Authority Board Resolution No. (9-28-2014) dated 20/07/1435H (corresponding to 19/05/2014G). 5. Government entities, any international authority recognized by the CMA or the Exchange or any other stock exchange recognized by the CMA or Edaa; 6. Government-owned companies, whether investing directly or through a portfolio manager. 7. GCC companies and GCC funds, if permissible according to the terms and conditions of such funds.
Individual subscribers	Saudi Arabian natural persons, including any Saudi female divorcee or widow with minor children from a marriage to a non-Saudi individual, who may subscribe for her own benefit in the names of her minor children, provided that she provides proof that she is divorced or widowed and proof of her motherhood to minor children, or any non-Saudi natural resident, or citizens of the Gulf Cooperation Council countries who have a bank account with one of the Receiving Agents, and they are entitled to open an investment account with a financial market institution.
Rules on the Offer of Securities and Continuing Obligations	The Rules on the Offer of Securities and Continuing Obligations issued by the board of the Capital Market Authority under resolution no. (3-123-2017), dated 09/4/1439H (Corresponding to 27/12/2017G), based on the Capital Market Law issued under Royal Decree no. (M/30), dated 02/06/1424H (Corresponding to 01/08/2003G), and amended under the Capital Market Authority Board resolution no. (8-5-2023), dated 25/06/1444H (corresponding to 18/01/2023G) and its amendments.
Listing Rules	Listing Rules approved by the decision of the Board of the Capital Market Authority No. (3-123-2017), dated 09/04/1439H (corresponding to 27/12/2017G), and amended by a decision of the Board of the Capital Market Authority No. (1-104-2019) dated 01/02/1441H (corresponding to 30/09/2019G), and amended by the Authority's Board Resolution No. (1-22-2021) dated 12/07/1442H (corresponding to 24/02/2021G), and amended by its Resolution No. (1-19-2022) dated 12/07/1443H (corresponding to 13/02/2022G), and amended by the Authority's Board Resolution No. (1-52-2022) dated 12/09/1443H (corresponding to 13/04/2022G), and amended by Authority's Board Resolution No. (3-96-2022) dated 10/02/1444H (corresponding to 06/09/2022G), and amended by Authority's Board Resolution No. (1-108-2022) dated 23/03/1444H (corresponding to 19/10/2022G) and its amendments.
Companies Law	The Companies Law issued pursuant to Royal Decree No. (M/3) dated 28/01/1437H (corresponding to 10/11/2015G) and amended by Royal Decree No. (M/132) dated 01/12/1443H (corresponding to 30/06/2022G) and any amendments made to it.
Corporate Governance Regulations	Corporate Governance Regulations in the Kingdom of Saudi Arabia, issued by the board of the Capital Market Authority under resolution No. (8-16-2017), dated 16/05/1438H (corresponding to 13/02/2017G), based on the Companies Law issued under Royal Decree No. (M/3), dated 28/01/1437H (corresponding to 10/11/2015G) and amended by the Capital Market Authority resolution of No. (8-5-2023), dated 25/06/1444H (corresponding to 18/01/2023G) Based on the Companies Law issued by Royal Decree No. (M/132) dated 01/12/1443H (corresponding to 30/06/2022G) and its amendments.
Labor Law	The Saudi Labor Law promulgated by Royal Decree no.(M/51), dated 23/08/1426H (corresponding to 27/09/2005G), and its amendments

Term or Abbreviation	Definition
Nitaqat / Saudization Program	Labor regulations in the Kingdom of Saudi Arabia require companies operating in the Kingdom to employ a certain percentage of Saudis. The Saudization Program «Nitaqat» has been approved under the Ministry of Human Resources and Social Development's resolution no. (4040), dated 12/10/1422H (corresponding to 10/09/2011G) based on Cabinet Resolution No. (50), dated 12/05/1415H (corresponding to 27/10/1994G). The Nitaqat program has been modified to the «Developed Nitaqat Program», to provide incentives for establishments to employ Saudi citizens. This program evaluates the performance of any organization on the basis of specific bands of platinum, green, and red.
International Financial Reporting Standards (IFRS)	The Saudization Program «Nitaqat» has been approved under the Ministry of Human Resources and Social Development's resolution no. (4040), dated 12/10/1422H (corresponding to 10/09/2011G) based on Cabinet Resolution No. (50), dated 12/05/1415H (corresponding to 27/10/1994G). The Nitaqat program has been modified to the "Developed Nitaqat Program", to provide incentives for establishments to employ Saudi citizens. This program evaluates the performance of any organization on the basis of specific bands of platinum, green, and red.
Instructions for book building and allocating shares in initial public offerings	Instructions for book building and allocating shares in IPOs issued based on the Authority's Board of Directors Resolution No. (2-94-2016) dated 15/10/1437H (corresponding to 20/07/2016G) and amended by the Authority's Board Resolution No. (1-103-2022), dated 02/03/1444H (corresponding to 28/09/2022G) and its amendments.
Instructions regarding foreign strategic investors	Instructions regulating foreign strategic investors' ownership of strategic shares in listed companies issued by the Board of the Capital Market Authority pursuant to Resolution No. (3-65-2019) dated 14/10/1440H (corresponding to 17/06/2019G) based on the Capital Market Law issued by Royal Decree No. (M/30) dated 02/06/1424H (corresponding to 31/07/2003G) and its amendments.
Rules governing investment by financial institutions	The rules governing the investment of foreign financial institutions in listed securities issued pursuant to Authority Board Resolution No. (1-42-2015) dated 15/07/1436H (corresponding to 04/05/2015G) and amended pursuant to the Authority Board Resolution No. (3-65-2019) dated 14/10/1440H (corresponding to 17/06/2019G) and its amendments.
ISO	International Standards Organization
Lock-up Period	Substantial Shareholders who own 5% or more of the Company shares (whose names appear on page No. (xxii) of this Prospectus) must not dispose of any of those shares for a period of (6) six months from the starting date of trading the shares in the Capital Market. Such persons may dispose of such shares after the expiry of the six-month period without the need to obtain prior approval from the Authority.
Value Added Tax (VAT)	On 02/05/1438H (corresponding to 30/01/2017G), the Council of Ministers decided to approve the Unified Agreement on Value Added Tax for the GCC states, which is an indirect tax imposed on all purchased and sold goods and services with some exceptions. The Kingdom of Saudi Arabia has committed to implementing the value-added tax at a rate of 5%, starting from the date of 14/04/1439H (corresponding to 01/01/2018G). VAT has been imposed at every stage of the supply chain, starting from production, through distribution, and up to the final sale of the commodity, or service. The Government of the Kingdom of Saudi Arabia has decided, starting from July 2020, to increase the value-added tax rate from 5% to 15%, and a number of products have been excluded, including (basic foods and services related to health care and education). The consumer pays the cost of value-added tax on goods and services that he/she buys. As for businesses, they pay to the Government the value-added tax collected from consumers' purchases, and businesses recover the value-added tax they paid to their suppliers.
Ordinary General Assembly	Ordinary General Assembly of the Company's shareholders.
Extraordinary General Assembly	Extraordinary General Assembly of the Company's shareholders.
Transformational General Assembly	Transformational General Assembly of the Company's shareholders.
Related Parties	They are: 1. Affiliates of The Company. 2. Substantial Shareholders of The Company. 3. Directors and senior executives of The Company. 4. Directors and senior executives of the affiliates of The Company. 5. Directors and senior executives of Substantial Shareholders of The Company. 6. Any relatives of the persons in (1, 2, 3, 4, or 5) above. 7. Any company controlled by any person in (1, 2, 3, 4, 5, 6) above.
Control	According to the list of Authority's terms and regulations and rules as issued by the Authority, control is the ability to influence the actions or decisions of another person, directly or indirectly, individually or collectively closely or remotely, through any of the following: 1. Owning 30% or more of the voting rights in a company. 2. The right to appoint 30% or more of the members of the management bod
Subsidiary	According to the list of terms used in the Capital Market Authority's regulations and rules issued by the Authority, a subsidiary is any company controlled by the Company.

Term or Abbreviation	Definition
Associate Company (Affiliate)	According to International Accounting Standard No. (28) approved by the Saudi Organization for Chartered and Professional Accountants, an associate (affiliate) is any company over which the Company has significant influence.
Relatives	Husbands, wives and minor children. For the purposes of the CGRs: <ul style="list-style-type: none"> • Fathers, mothers, grandfathers, grandmothers and their ancestors; • Children, grandchildren and their descendants; • Siblings, maternal and paternal half-siblings; and • Husbands and wives
Swap Agreements (SWAP)	Agreements in which non-Saudi individual investors residing outside the Kingdom and institutions registered outside the Kingdom have the right to invest indirectly by entering into agreements through one of the financial market institutions licensed by the Authority to obtain the economic benefits of the shares.
Underwriting Agreement	The underwriting agreement to be entered into between the Company, the Selling Shareholders and the Underwriter in connection with the Offering
Gross Domestic Product (GDP)	The most comprehensive quantitative measure of total economic activity in a country, representing the monetary value of all goods produced and services provided within the geographical borders of a country over a given period of time.
GDP per capita	Gross domestic product per capita, which is a measure of a country's average per capita income (calculated by dividing GDP by the number of population).
OPEC	Organization of the Petroleum Exporting Countries.
Eco	European Commission for Humanitarian Aid and Civil Protection.
NUPCO	The National Company for the Unified Purchase of Medicines, Devices and Medical Supplies «Nupco».
Wasfaty	An electronic service provided by Nupco in the Kingdom, which aims to raise the level of health services and ensure the availability of medicines for patients by linking government hospitals and primary health care centers with private community pharmacies to make it easier for patients to receive their medications from the nearest community pharmacy for free.
SIBOR	The average cost of borrowing between banks in the Kingdom for one year, and is updated on a daily basis.
Subscription Form	The application form used by Participating Parties to register their orders for the offering shares during the book building period. This term includes (as the case may be) the appendix application form when the price range changes.
Vision 2030	The national strategic economic program that aims to reduce dependence on the oil and petrochemical industry, diversify the Saudi economy, and develop public services.
Risk Factors	They are the set of potential influences that must be known and hedged before deciding to subscribe to the offered shares.
Riyal or SR or SAR	Saudi Arabian Riyal, the official currency of Saudi Arabia
Working Day	Any business day except Friday and Saturday, any day that is an official holiday in the Kingdom of Saudi Arabia, and any day on which banking institutions close their doors from business in the Kingdom in accordance with the applicable regulations and other government procedures.
Saudization or Nationalization	Labor regulations in the Kingdom of Saudi Arabia that require companies operating in the Kingdom to employ a certain percentage of Saudis.
H	Hijri calendar.
G	Gregorian calendar.
Generic medicines	Medicines that are equivalent and similar to the basic medicine manufactured by the first manufacturer in terms of dosage form, composition, quality, properties and use.
Pharmacy chains	Pharmacies that have a large number of branches.
Pandemic or Coronavirus (Covid 19)	A viral infectious disease known as (Corona Virus) and referred to in brief as «Covid19» that has started to spread in most of the countries worldwide, including the Kingdom of Saudi Arabia in the beginning of the 2020G. It has been classified as pandemic by the World Health Organization.



02

**Risk
factors**

2- Risk factors

Investing in the shares offered under this Prospectus involves high risks, and investing in them may only be appropriate for investors who are able to evaluate the benefits and risks of this investment and bear any loss that may result from it.

Anyone wishing to invest in the shares offered for subscription must carefully study all the information contained in this Prospectus, including the risk factors described in this section, before making any investment decision related to the offering shares, noting that the risks described below may not include all the risks that may arise. It is possible that there are other additional risks that are not known to the Company or that it does not consider to be material at the present time, which would affect its operations.

The Company's activity, financial conditions, future prospects, results of operations, and cash flows may be materially and negatively affected if any of the risks included in this section occur or materialize, which the Company's management currently believes are material. This is in addition to any other risks that the Board of Directors have not currently identified or classified as immaterial, but which may actually occur and become material risks. As a result of these risks or other factors that may affect the Company's business, anticipated future events and circumstances presented in this Prospectus may not occur in the way the Company and/or the Directors expect, or may not occur at all. Accordingly, investors should consider all future statements contained in this Prospectus in light of this interpretation and not rely on such statements without verifying them (see the «**Important Notice**» section on page (i) of this Prospectus).

Investing in shares is only suitable for investors who are able to evaluate the risks and rewards of such investment, and who have sufficient financial resources to bear any loss that may result from such investment. A potential investor who has any doubts about the decision he should make regarding whether or not an investment is suitable for him should seek the help of a licensed financial advisor to obtain advice regarding investing in the shares offered for subscription.

In the event of the occurrence or realization of one of the risk factors that management believes at the present time to be significant, or the occurrence of any other risks that management has not been able to identify, or which it considers at the present time to be immaterial, but when they occur are found to be significant, this may lead to a decrease in the market price of shares, weakening the Company's ability to distribute profits to shareholders, and potential investors may lose all or part of their investments in the Company's shares.

The members of the Company's Board of Directors acknowledge that, to the best of their knowledge and belief, there are no other material risks as of the date of this Prospectus other than those mentioned in this section that could affect investors' decisions to invest in the offering shares.

The risks and uncertainties set forth below are not presented in an order of their significance. There are also other additional risks, uncertainties and possibilities, including those that are not currently known or that the Company's management considers immaterial, that may have the effects described above. Accordingly, the risks described in this section or in any other section of this Prospectus may not include all the risks that may affect the Company's operations, activities, assets, or the markets in which it operates, and may not include all the risks involved in investing in the offering shares.

2-1 Risks related to the Company's activity and operations

2-1-1 Risks related to non-compliance with the Companies Law and the Company's bylaws

The Companies Law issued pursuant to Royal Decree No. (M/3) dated 28/01/1437H (corresponding to 10/11/2015G) and amended by Royal Decree No. (M/132) dated 01/12/1443H (corresponding to 30/06/2022G) imposes certain regulatory requirements that the Company must adhere to, and this requires the Company to take the specific and required measures to ensure its compliance with such requirements, which may affect the Company's business and take a long time.

The Company has never violated the Companies Law, it is committed to the regulatory requirements of it, and it does not have any violations of the Companies Law as of the date of this Prospectus. The Companies Law has also imposed penalties for violating its mandatory provisions and rules, and according to Article No. (262) of its bylaws, fines for violating any of its provisions reach (500,000) five hundred thousand Saudi riyals. Therefore, if the Company is subjected to one of these penalties as a result of its failure to comply with these provisions, or in the event of its failure to comply with the provisions of the Company's bylaws, this will have a negative and material impact on the Company's business, results of operations, financial performance, profitability, and future prospects.

2-1-2 Risks related to the issuance of the new Companies Law

The Ministry of Commerce issued the new Companies Law pursuant to Royal Decree No. (M/3) dated 28/01/1437H (corresponding to 10/11/2015G) and amended by Royal Decree No. (M/132) dated 01/12/1443H (corresponding to 30/06/2022G), which aims to facilitate regulatory procedures and requirements to stimulate the business environment and support investment. It also aims to achieve a balance between stakeholders, provide an effective and fair corporate governance framework, devote institutional work, contribute to the sustainability of economic entities, including family companies, attract local and foreign investments, provide sustainable financing sources, meet the needs and requirements of the entrepreneurship sector, and stimulate the growth of small and medium enterprises. The new companies law requires several changes in the regulations and laws that the Company currently follows, and if it does not adhere to the provisions of the corporate law, this will negatively affect its business, results of operations, profits, and future business plans.

2-1-3 Risks related to the lack of experience in managing listed joint stock companies

The success of Avalon Pharma's business depends primarily on the ability of its management to make appropriate and correct decisions regarding its business and activities. Since the executive management employees do not have experience in managing public joint stock companies and in how to adhere to the rules and regulations of joint stock companies listed on the Saudi capital market, such as adherence to the requirements of continuous disclosure and preparing various reports in accordance with what is required under these rules and regulations, the Company's executive management must make every additional effort to ensure compliance with the rules and regulations imposed on listed companies. If the Company does not comply with these rules, the Company will be exposed to regulatory penalties and fines, which in turn will negatively and materially affect its business, prospects and financial position.

2-1-4 Risks related to non-compliance with the Capital Market Law and its Implementing Regulations

After its listing on the financial market, the Company will be subject to the Capital Market Law and the rules, regulations and circulars issued by the Capital Market Authority. If the Company is unable to adhere to any of the regulations and regulations to which it will be subject, it will be subject to financial fines and penalties such as temporary suspension of stock trading or cancellation of stock listing. If the Company does not comply, this will have a negative and material impact on the Company's business, results of operations, financial performance, profitability, and future prospects.

2-1-5 Risks of management decisions

The Company's business results depend mainly on the ability of its management to make correct and appropriate decisions regarding its business and activities in a timely manner. If the Company's management makes wrong decisions regarding its business in general, such as employing unqualified personnel, developing ineffective business plans, developing inappropriate operational policies, etc., this will reflect negatively on the Company's performance, results of operations, and financial condition.

2-1-6 Risks related to employee errors or misconduct

The Company may face employee misconduct or errors such as deception, intentional errors, embezzlement, fraud, theft and forgery, in addition to misuse of its property and acting on its behalf without obtaining the required administrative authorizations. These actions may result in consequences and responsibilities for the Company, or regulatory penalties, or financial liability, which will negatively and fundamentally affect the Company's reputation, financial condition, results of operations, and future prospects.

2-1-7 Risks of difficulty in recruiting people with experience in the health sector

In its activity and business operations, Avalon Pharma relies heavily on employees who have experience in the health sector, especially those who work in the operations departments, the scientific office, and sales and marketing, as they are required to be highly competent and familiar with the characteristics of developing and marketing the Company's products and managing their related operations in accordance with the standards required by the regulatory authorities and the Company's clients. If the Company is unable to employ and maintain qualified personnel to continue its operations, this will have a negative and material impact on the Company's business, results of operations, and future prospects.

2-1-8 Credit related risks

Credit risks arise when one party is unable to fulfill a certain financial obligation to the other party. The Company may face credit risks in several temporary or permanent situations, including but not limited to, the presence of unpaid customer debt balances, failure of other debtor parties to fulfill their obligations to the Company, or other.

Avalon Pharma implements a policy approved by the executive management to limit its exposure to credit risks, whereby the performance of collections is constantly monitored, a maximum repayment period of six (6) months is set, and the necessary measures are taken if any of the customers do not comply with the repayment terms. The Company's exposure to credit risk is primarily influenced by the individual characteristics of each customer. However, the management also considers factors that may have an impact on the credit risk of its customer base, including default risks associated with the business sector in which customers operate.

Under a credit policy, each new customer is also analyzed individually to verify his credit capacity before offering the Company's standard payment terms and conditions to the customer. The management also ensures that sales to customers are within the credit limit of the customers concerned.

As for the Company's distributors outside the Kingdom of Saudi Arabia (export customers), they pay in advance and/or through guarantees through documentary credits before delivery.

The following table shows the receivables during the years 2020G, 2021G, 2022G, and the first half of 2023G, according to the type of customers:

Table No. (12): Receivables according to type of customers

	As of December 31, 2020G (Saudi riyals)	As of December 31, 2021G (Saudi riyals)	As of December 31, 2022G (Saudi riyals)	As of June 30, 2023G (Saudi riyals)
Receivables from retail customers (private sector)	47,709,561	72,376,191	77,237,877	86,517,655
Receivables from government sector customers	64,285,992	91,914,982	77,106,427	64,424,719
Receivables from export customers	5,772,201	7,978,217	6,061,402	5,253,367
Total receivables	117,767,754	172,269,390	160,405,706	156,195,741
Deduct: Loss allowance				
Loss provision from government sec-tor clients	(277,784)	(417,588)	(1,820,046)	(1,335,381)
Loss provision from private sector cli-ents	(7,625,592)	(7,485,788)	(6,213,330)	(6,369,389)
Total Loss provision	(7,903,376)	(7,903,376)	(8,033,376)	(7,704,770)
Net receivables	109,864,378	164,366,014	152,372,330	148,490,971
Percentage of total current assets	48.79%	61.02%	52.09%	54.47%
Percentage of total assets	29.64%	39.42%	34.38%	34.87%

Source: Avalon Pharma Company

- The total receivables from the Company's five largest debtors amounted to (44,321,023) forty-four million, three hundred and twenty-one thousand and twenty-three Saudi riyals as of December 31, 2020G, i.e. 40.34% of the total net receivables, which constituted 14.69% of total revenues, and 11.96% of total assets.
- The total receivables from the Company's five largest debtors amounted to (86,261,585) eighty-six million, two hundred and sixty-one thousand, five hundred and eighty-five Saudi riyals, as of December 31, 2021G, i.e. 52.48% of the total net receivables, which constituted 30.03% of total revenues, and 20.69% of total assets.
- The total receivables from the Company's five largest debtors amounted to (80,177,278) eighty million one hundred and seventy-seven thousand two hundred and seventy-eight Saudi riyals as of December 31, 2022G, i.e. 52.62% of the total net receivables, which constituted 26.49% of total revenues, and 18.09% of total assets.
- The total receivables from the Company's five largest debtors amounted to (78,236,348) seventy-eight million two hundred and thirty-six thousand three hundred and forty-eight Saudi riyals as of June 30, 2023G, i.e. 52.69% of the total net receivables, which constituted 52.68% of total revenues, and 18.37% of total assets.

The average repayment period ranges between 90 to 120 days for retail and export customers, and between 180 to 365 days for government sector customers. The Company sets provisions for doubtful debts as these debts age. The total value of these provisions reached (7,903,376) seven million nine hundred and three thousand three hundred and seventy-six Saudi riyals as of December 31, 2020G, and (7,903,376) seven million nine hundred and three thousand three hundred and seventy-six Saudi riyals as of December 31, 2021G, and (8,033,376) eight million and thirty-three thousand three

hundred and seventy-six Saudi riyals as of December 31, 2022G and (7,704,770) Seven million seven hundred and four thousand seven hundred and seventy Saudi riyals as of June 30, 2023G.

The following table shows the aging of receivables during the years 2020G, 2021G, 2022G, and the first half of 2023G:

Table No. (13): Aging of receivables

	As of December 31, 2020G (Saudi riyals)	% of total	As of December 31, 2021G (Saudi riyals)	% of total	As of December 31, 2022G (Saudi riyals)	% of total	As of June 30, 2023G (Saudi riyals)	% of total
Current (not past due)	67,750,157	57.53%	101,440,153	58.88%	103,128,418	64.29%	104,785,084	67.09%
Past due from 1 to 30 days	6,688,876	5.68%	6,039,557	3.51%	4,029,105	2.51%	2,866,182	1.83%
Past due from 31 to 60 days	4,984,467	4.23%	2,988,870	1.73%	2,406,123	1.50%	1,202,683	0.77%
Past due from 61 to 90 days	3,731,415	3.17%	2,144,604	1.25%	1,402,258	0.87%	1,002,238	0.64%
Past due from 91 to 180 days	7,065,159	6.00%	14,202,749	8.24%	3,482,332	2.17%	2,376,619	1.52%
Past due from 181 to 365 days	9,855,324	8.37%	11,283,981	6.55%	9,497,396	5.92%	4,420,240	2.83%
Past due from 366 to 720 days	11,456,417	9.73%	23,166,721	13.45%	14,539,022	9.07%	12,505,775	8.01%
Past due for more than 720 days	6,235,939	5.29%	11,002,755	6.39%	21,921,052	13.67%	27,036,920	17.31%
Total	117,767,754	100.00%	172,269,390	100.00%	160,405,706	100.00%	156,195,741	100.00%

Source: Avalon Pharma Company

* The figures have been restated as of December 31, 2020G, according to the classification in the audited consolidated financial statements ending on December 31, 2022G.

Debtor balances overdue for more than 365 days represent receivables from government tender sales and receivables from direct sales to private sector clients, which were made within the framework of the Company's collection policy, and are reversed as they age within the provision for doubtful debts.

The following table shows details of debit balances overdue for more than 365 days during the years 2020G, 2021G, 2022G, and the first half of 2023G:

Table No. (14): Age of receivables overdue for more than 365 days

	As of December 31, 2020G (Saudi riyals)	% of total	As of December 31, 2021G (Saudi riyals)	% of total	As of December 31, 2022G (Saudi riyals)	% of total	As of June 30, 2023G (Saudi riyals)	% of total
Total debit balances overdue from 366 days to 720 days								
Of government sector clients	7,166,213	62.55%	22,279,407	96.17%	13,592,317	93.49%	11,236,633	89.85%
Of private sector clients	4,290,204	37.45%	887,314	3.83%	946,705	6.51%	1,269,142	10.15%
Total debit balances overdue from 366 to 720 days	11,456,417	100.00%	23,166,721	100.00%	14,539,022	100.00%	12,505,775	100.00%
Debit balances are overdue for more than 720 days								
Of government sector clients	3,118,069	50.00%	6,641,262	60.36%	17,773,141	81.08%	23,011,977	85.11%
Of private sector clients	3,117,870	50.00%	4,361,493	39.64%	4,147,911	18.92%	4,024,943	14.89%
Total debit balances overdue for more than 720 days	6,235,939	100.00%	11,002,755	100.00%	21,921,052	100.00%	27,036,920	100.00%

Source: Avalon Pharma Company

* The figures have been restated as of December 31, 2020G, according to the classification in the audited consolidated financial statements ending on December 31, 2022G.

It is worth noting that the bad debts that were written off during the year 2020G amounted to (81,969) eighty-one thousand nine hundred and sixty-nine Saudi riyals, or 0.07% of the total balance of receivables, and there were no bad debts that were written off during the year 2021G, during the year 2022G, and during the first half of 2023G (see Section No. (6-3-3-2) «Current Assets» of this Prospectus).

If the debtors do not commit to paying the Company's dues on time, or do not commit at all to pay partially or completely, this will have a negative and material impact on the Company's results of operations, financial condition and cash flows.

2-1-9 Risks related to credit facilities and financing agreements

Avalon Pharma has entered into several agreements with local lenders to obtain credit facilities and long-term loans. The following table shows the total value of short and long-term facilities and loans during the years 2020G, 2021G, 2022G, and the first half of 2023G:

Table No. (15): The value of financing for the Company

	As of December 31, 2020G (Saudi riyals)	As of December 31, 2021G (Saudi riyals)	As of December 31, 2022G (Saudi riyals)	As of June 30, 2023G (Saudi riyals)
Short-term facilities and loans	42,052,950	66,436,956	69,130,087	60,427,751
Long-term loans	20,598,291	15,844,840	9,506,904	6,337,936
Current portion of long-term loans	-	4,753,451	6,337,936	6,337,936
Total financing value for the Company	62,651,241	87,035,247	84,974,927	73,103,623
Percentage of the total financing value out of total assets	16.90%	20.88%	19.17%	17.17%

Source: Avalon Pharma Company

The Company has entered into (3) three short- and long-term Islamic credit facility agreements with some banks in the Kingdom to finance the Company's operational activities and working capital, as follows:

- An Islamic credit facility agreement worth up to (30,000,000) thirty million Saudi riyals from the Arab National Bank, with an agreed-upon Murabaha rate of SIBOR + 2.25% annually.
- An Islamic credit facility agreement with a value of up to (45,481,000) forty-five million four hundred and eighty-one Saudi riyals from the Saudi Investment Bank, with an agreed-upon Murabaha rate of SIBOR + 2.00% annually.
- An Islamic credit facility agreement with a value of up to (92,429,000) ninety-two million four hundred and twenty-nine thousand Saudi riyals from the Banque Saudi Fransi, with an agreed upon Murabaha rate of SIBOR + 1.75% annually.

(See Section No. (12-8) «Loans and Facilities» of this Prospectus)

The value of the financing fees incurred by the Company on the credit facilities was as follows:

- (956,429) nine hundred and fifty-six thousand four hundred and twenty-nine Saudi riyals during the year 2020G.
- (1,184,955) million one hundred and eighty-four thousand nine hundred and fifty-five Saudi riyals during the year 2021G.
- (4,734,120) four million seven hundred and thirty-four thousand and one hundred and twenty Saudi riyals during the year 2022G.
- (2,200,927) two million two hundred thousand nine hundred and twenty-seven Saudi riyals during the first half of 2023G.

It is worth noting that the credit facility agreement with the Saudi Investment Bank has expired, and the Company communicated with the bank and confirmed the validity of the agreement on the same conditions agreed upon through correspondence without submitting independent contractual annexes to renew it, until the renewal agreement is prepared and signed by both parties. Therefore, the agreement is considered valid until the renewal agreement is signed. If the Company is unable to renew that agreement, or if it is unable to renew the agreement on the same terms, or if the financing party imposes additional, non-preferential conditions, this will have a negative and material impact on the Company's business, financial performance, cash flows, and ability to implement its plans in the future.

As a result of the size of the Company's indebtedness to lenders, the Company allocates a large portion of liquidity to repay that debt on its due dates. This limits its ability to use that liquidity to support its operational activities, increase the volume of business, and achieve growth rates in its business, which has a negative and material impact on its financial performance and flows, cash and its ability to implement its future plans.

The credit facility agreements also include some conditions and commitments that the Company must adhere to, and the conditions may vary according to the requirements of the financing party. For example, the agreements include some conditions, including:

- Conditions related to early repayment in the event of breach of the terms of facility and loan agreements.
- Conditions for cases of breach of facility agreements:
 - The presence of any debt owed by any of the security providers that becomes due for payment before its due date or is not paid when due.
 - Execution on any of the guarantee providers or the death or loss of capacity of any of the guarantee providers.
- The conditions for the presence of guarantees are real estate mortgages provided by the Company. In the event that the value of these guarantees decreases, the bank has the right to demand additional guarantees to cover the difference.
- Conditions for the existence of a fines and performance guarantee issued by some shareholders. If they do not continue to provide this guarantee after the offering process, this will affect the Company's ability to obtain financing or the cost of financing.
- Conditions that authorize the bank to change, restrict, or cancel any of the facilities provided to the Company, its conditions, or its profit margins according to the bank's absolute discretion.
- Conditions under which the Company is obligated to compensate the bank in the event of circumstances that would increase costs to the bank.
- Conditions related to the Company's breach of any facility agreement to which it is a party, or its cessation of performing an essential part of its commercial business, or its initiation of any bankruptcy procedures. This gives the bank the right to apply the penalty for breach, including considering all amounts of credit facilities as status quo, and implementing the guarantees granted to the bank.
- Conditions related to the breach by any of the guarantee providers of any facility agreement to which they are a party, or their bankruptcy, loss of capacity, or cessation of performing an essential part of their work. This will be considered a breach by the Company itself and gives the bank the right to apply the breach penalty, including considering all credit facility amounts as status quo, and implementation of guarantees granted to the bank.
- Conditions for not mortgaging any of the Company's current and future fixed and movable assets to any third party. In the event of breach of this, the bank has the right to apply the breach penalty, which includes considering all credit facility amounts as status quo, and implementing the guarantees granted to the bank.

If the Company is unable to comply with the terms of the above facility and loan agreements or violates them, or when a material negative event occurs that harms the Company's business, including the obligation to pay the installments on due dates, it will become subject to penalties, and this will allow the financing parties to cancel or terminate the loans and credit facilities, and require the Company to pay the entire debt immediately, or taking judicial enforcement measures against the Company's business or assets, which will negatively and fundamentally affect the Company's business, financial performance, cash flows, and ability to implement its future plans.

It is worth noting that the Company has obtained a letter of no objection from the lenders regarding the Company's transformation into a public joint stock company and the offering and listing of its shares on the financial market.

Otherwise, the Company confirms that it does not have any credit facilities or other loans as of the date of this Prospectus.

2-1-10 Liquidity risks

Liquidity risks represent the Company's inability to meet its obligations related to financial liabilities as they fall due. The Company's financial liabilities consist of loans, payables, accrued expenses, and dues to related parties. Any emergency or sudden events may occur that require immediate liquidity or require the sale of financial assets quickly enough and at their fair value to cover the required liquidity needs.

The net working capital (total current assets after deducting total current liabilities) at the Company amounted to (140,434,153) one hundred and forty million, four hundred and thirty-four thousand and one hundred and fifty-three Saudi riyals as of December 31, 2020G, (151,975,201) one hundred and fifty-one million nine hundred and seventy-five thousand Two hundred and one Saudi riyals as of December 31, 2021G, (160,124,318) one hundred and sixty million one hundred and twenty-four thousand three hundred and eighteen Saudi riyals as of December 31, 2022G, and (152,066,393) one hundred and fifty-two million and sixty-six thousand three hundred and ninety-three Saudi riyals as of June 30, 2023G. The Company's trading ratio (total current assets to total current liabilities) was about 2.66 times as of December 31, 2020G, 2.29 times as of December 31, 2021G, 2.21 times as of December 31, 2022G, and 2.26 times as of December 30. June 2023G.

The following table shows the Company's most important liquidity indicators during the years 2020G, 2021G, 2022G, and the first half of 2023G:

Table No. (16): The Company's most important liquidity indicators

	As of December 31, 2020G	As of December 31, 2021G	As of December 31, 2022G	As of June 30, 2023G
Cash and cash equivalents (Saudi riyals)	15,923,866	19,035,572	23,790,842	9,857,541
Net working capital (SAR)	140,434,153	151,975,201	160,124,318	152,066,393
Turnover ratio (times)	2.66	2.29	2.21	2.26
Quick ratio (times)	1.68	1.66	1.45	1.43
Cash flow ratio (times)	0.19	0.16	0.18	0.08
Accounts receivable turnover rate (days)	133	209	184	178
Inventory turnover rate (days)	240	241	309	293
Accounts payable turnover rate (days)	57	138	97	95
Cash turnover rate (days)	316	312	395	376

Source: Extracted from the audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022, and the reviewed consolidated financial statements for the six-month period ending on June 30, 2023.

The Company is exposed to liquidity risks if it is unable to maintain a sufficient amount of cash and working capital to finance its operational activities, as it has cash available when collecting receivables from customers or through credit agreements with banks (see Section No. (2-1-9) «**Risks relating to credit facilities and financing agreements**» of this Prospectus).

It is worth noting that the Company's sales to its customers in the government and private sectors are made on credit, which delays the process of collecting its receivables, as the net balance of receivables reached (109,864,378) one hundred and nine million eight hundred and sixty-four thousand three hundred and seventy-eight Saudi riyals as of December 31, 2020G, (164,366,014) one hundred Sixty-four million three hundred and sixty-six thousand and fourteen Saudi riyals as of December 31, 2021G, (152,372,330) one hundred and fifty-two million three hundred and seventy-two thousand three hundred and thirty Saudi riyals as of December 31, 2022G, and (148,490,971) one hundred and forty-eight million four hundred and ninety thousand Nine hundred and seventy-one Saudi riyals as of June 30, 2023G (see Section No. (2-1-8) «**Credit-Related Risks**» of this Prospectus). In addition, the Company is committed to managing the inventory of raw materials and finished products to meet manufacturing needs for a period of no less than (6) months, in accordance with the requirements of the Saudi Food and Drug Authority. Despite the delay in collecting receivables and the commitment to purchase quantities of raw materials to maintain a sufficient level of inventory at all times, the Company pays the receivables of the suppliers it deals with on their due dates, which may expose it to the risk of not having sufficient liquidity at all times, and if this happens it will have a negative and material impact on the Company's performance, operational activities, future plans and financial condition.

If the Company is not able to meet its current or future obligations on their due dates, especially short-term ones, it will be vulnerable to financial default, which will negatively affect the Company's business, financial performance and future prospects.

2-1-11 Risks related to the availability of financing in the future

The Company may resort to obtaining loans and bank facilities to finance future expansion plans. It is worth noting that obtaining financing may depend on the Company's capital, financial position, cash flows, credit record, and guarantees provided. The Company does not give any confirmation or guarantee regarding its obtaining appropriate financing if it is needed. The Company's inability to obtain the financing it needs from financing parties, or its inability to obtain financing on acceptable terms that suit the Company, will have a negative impact on the Company's performance, operational activities, cash flows, and future plans.

2-1-12 Risks related to the Company's reliance on its shareholders to obtain financing

The Company relied on shareholders to provide personal guarantees to some banks in exchange for obtaining loans and credit facilities for the Company (see Section No. (12-8) «**Loans and Facilities**» of this Prospectus). This comes within the framework of financing the Company's liquidity needs to meet the requirements of operational activities and working capital, as it depends on the reputation of its shareholders and their ability when negotiating with financing parties. If the required support is not available in the future from shareholders for any reason, the Company may be unable to obtain the required bank facilities or obtain them on preferable terms, which will have a negative and material impact on the Company's performance, operational activities, future plans and financial condition.

2-1-13 Risks related to the Company's payables

The Company's credit balances represent receivables to suppliers with whom the Company deals (see Section No. (4-20) «**Main Suppliers**» and Section No. (6-2-2-4) «**Current Liabilities**» of this Prospectus). The Company's total balance of trade payables is as follows:

- (26,202,827) twenty-six million two hundred and two thousand eight hundred and twenty-seven Saudi riyals as of December 31, 2020G, which constituted 30.91% of the total current liabilities.
- (32,732,211) thirty-two million seven hundred and thirty-two thousand two hundred and eleven Saudi riyals as of December 31, 2021G, which constituted 27.88% of the total current liabilities.
- (37,954,257) thirty-seven million nine hundred and fifty-four thousand two hundred and fifty-seven Saudi riyals as of December 31, 2022G, which constituted 28.67% of the total current liabilities.
- (35,752,004) thirty-five million seven hundred and fifty-two thousand and four Saudi riyals as of June 30, 2023G, which constituted 29.65% of the total current liabilities.

If the Company is unable to pay the full value of trade payables within the specified period of time, it will be difficult for it to continue obtaining debt purchase agreements on appropriate terms in the future. This will also negatively affect its reputation and the desire of the creditor parties to continue dealing with the Company, which will have a significant negative impact on its operational activities and financial performance (see Section No. (6-2-2-4) «**Current Liabilities**» of this Prospectus).

2-1-14 Risks related to the occurrence of natural disasters

The Company may be exposed to any natural disasters that are beyond its control, such as floods, fires, earthquakes, and other natural events that result in significant damage to the Company's facilities, which may lead to the suspension of work at the affected manufacturing facilities and thus affect the Company's revenues during the period of business interruption. If adequate insurance coverage is not available (see Section No. (12-10) «**Insurance**» of this Prospectus), this may result in high and huge costs to the Company, which will greatly affect the Company's ability to perform and practice its activity, and thus will negatively affect its operations. The occurrence of any of these natural disasters will have a negative and material impact on the Company's financial performance, financial condition and future prospects.

2-1-15 Risks related to operation and unexpected business cessation

Avalon Pharma relies on the effectiveness of marketing and selling its products and related business systems to continue its operations. Any cessation or interruption of these operations for any reason, such as natural disasters, sudden malfunctions, fires, or any failure affecting sales operations or computers, or interruption of the power and electricity supply, may lead to interruption of these operations, and consequently will have a material negative impact on its business, financial condition and future prospects.

2-1-16 Risks related to inventory

The Company's inventory includes mostly the value of raw materials and finished products that the Company supplies to meet the needs of factories and customer requests, including pharmaceutical chemicals, basic active ingredients, packaging materials, Boxes, and containers. The Company's inventory includes some slow-moving goods, as the Company creates a provision for the value of those goods as they age and approach the end of its validity (see Section No. (6-3-3-2) «Current Assets» of this Prospectus).

The Company manages the stock of raw materials and finished products to meet manufacturing needs for a period of at least six months, and in accordance with the requirements of the Food and Drug Authority. The size of the stock is estimated according to the production plans set by the Operations Department and in parallel with the sales plans set by the Sales Department.

The following table shows the Company's inventory as of December 31, 2020G, 2021G, and 2022G, and as of June 30, 2023G:

Table No. (17): Company's Inventory

In Saudi riyals	As of December 31, 2020G (Audited)	As of December 31, 2021G (Audited)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Raw materials	25,925,132	20,621,079	26,538,038	26,658,410
Packaging Materials	25,423,602	20,990,868	30,215,927	34,108,684
Ready-made products	24,071,800	24,110,731	36,883,268	33,619,534
Consumables	6,097,074	6,337,115	7,014,263	7,165,254
Spare parts inventory	1,424,984	2,760,314	1,507,428	1,619,090
Goods under manufacturing	322,693	257,191	295,472	392,562
Total inventory before provision deduction	83,265,285	75,077,298	102,454,396	103,563,534
Inventory provision				
Opening balance	322,848	753,556	626,023	2,239,844
Add: Provision for expiring and obsolete inventory *	4,531,586	4,725,805	9,520,608	5,361,739
Deduct: Write-offs and expenses during the year/period**	(4,100,878)	(4,853,338)	(7,906,787)	(4,732,610)
The balance of the provision at the end of the year/period	753,556	626,023	2,239,844	2,868,973
Net Inventory (after deducting provision)	82,511,729	74,451,275	100,214,552	100,694,561

Source: The audited consolidated financial statements for the fiscal years ending on December 31, 2020G, 2021G, and 2022, and the reviewed consolidated financial statements for the six-month period ending on June 30, 2023G.

* The amounts added to the inventory provision include the value of inventory that is about to expire and obsolete based on the operational life of each product, and is not written off from the provision until after the expiry of that inventory. When these amounts are added to the inventory provision, they are recognized as an expense within the cost of revenue (deducted from the closing inventory of finished goods within the cost of revenues).

** The amounts deducted from the inventory provision include the value of inventory that was written off due to its expiration and the value of damaged/returned materials, and the value of that expired inventory and damaged/returned materials are deducted from the total inventory balance.

The following table shows the aging of the Company's inventory as of December 31, 2020G, 2021G, and 2022G, and as of June 30, 2023G:

Table No. (18): Aging of the Company's inventory

In Saudi riyals	As of December 31, 2020G (Audited)	As of December 31, 2021G (Audited)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
From 0 to 120 days	16,542,580	18,917,722	28,914,008	30,431,387
From 121 to 180 days	11,214,753	8,280,013	13,802,913	10,351,399
From 181 to 240 days	21,313,489	4,918,458	8,217,444	6,394,580
From 241 to 360 days	13,532,847	6,998,796	12,025,865	14,449,388
More than 360 days	20,661,616	35,962,309	39,494,166	41,936,780
Total inventory before provision	83,265,285	75,077,298	102,454,396	103,563,534
Deduct: Inventory provision	(753,556)	(626,023)	(2,239,844)	(2,868,973)
Net inventory	82,511,729	74,451,275	100,214,552	100,694,561

Source: Avalon Pharma Company

The inventory mainly includes pharmaceutical chemicals, essential active ingredients used in making medicines and preparations, packaging materials, Boxes and containers. Due to the different operating lives of the inventory contents, as it includes products with a long shelf life, in addition to the fact that most packaging materials, boxes and packages do not have a specific expiration date, the value of inventory aging for more than 360 days is considered high compared to the rest of the inventory and compared to the provision for inventory that is about to expire and is obsolete.

The value of obsolete inventory for more than 360 days was (41,936,780) forty-one million nine hundred thirty-six thousand seven hundred and eighty Saudi Riyals as of 30 June 2023, and is as follows:

- Pharmaceutical chemicals and basic active ingredients at a value of (19,939,586) nineteen million nine hundred and thirty-nine thousand five hundred and eighty-six Saudi riyals, i.e. 47.5% of the total value of obsolete inventory for more than 360 days.
- Packaging materials, boxes and packages do not have a specific expiry date valued (21,403,127) twenty-one million four hundred three thousand one hundred and twenty-seven Saudi riyals, i.e. 51.0% of the total value of obsolete inventory for more than 360 days.
- Expired goods valued (594,067) five hundred ninety-four thousand and sixty-seven Saudi Riyals, i.e. 1.4% of the total value of obsolete inventory for more than 360 days, and the value of these goods shall be included in the inventory provision.

The balance of obsolete inventory has increased continuously for more than 360 days since 2020G, as shown in the table above, due to the following:

1. The Company maintains a high stock of some imported chemicals and active ingredients that have a long shelf life up to 60 months and require a long time to order and import them, ranging from 6 to 8 months. The Company obtains them at preferential prices when purchasing large quantities of them. In order to avoid a long import period and the possibility of running out of inventory as well as to take advantage of preferential prices when purchasing large quantities, the Company orders large quantities of these materials that have a shelf life of up to 1,800 days, it is normal to have a high inventory balance of these materials for more than 360 days. It is worth mentioning that the company sets aside a provision for these materials when their obsolescence and expiry date approaches.
2. The Company purchases most packaging materials, boxes and packages that do not have a specific expiration date in large quantities, as it obtains them at preferential prices when purchasing, and therefore, it is normal to have a high stock balance of these materials for more than 360 days. It is worth noting that the Company does not set aside a provision for these materials as they do not have a specific expiration date.

The net inventory value of the Company was as follows:

- As of December 31, 2020G, the net value of the Company's inventory amounted to (82,511,729) eighty-two million five hundred and eleven thousand seven hundred and twenty-nine Saudi riyals, and the value of the provision for slow-moving goods was (753,556) seven hundred and fifty-three thousand five hundred and fifty-six Saudi riyals, i.e. a ratio of 0.91. % of the total inventory value before deducting the provision. The inventory turnover rate (cost of revenue to net inventory value) was 1.52 times, with the average number of inventory days during the year reaching 240 days.

- As of December 31, 2021G, the net value of the Company's inventory amounted to (74,451,275) seventy-four million four hundred and fifty-one thousand two hundred and seventy-five Saudi riyals, and the value of the provision for slow-moving goods amounted to (626,023) six hundred and twenty-six thousand and twenty-three Saudi riyals, or a rate of 0.83% of the total inventory value before deducting the allowance. The inventory turnover ratio (cost of revenue to net inventory value) was 1.51 times, with the average number of inventory days during the year reaching 241 days.
- As of December 31, 2022G, the net value of the Company's inventory amounted to (100,214,552) one hundred million two hundred and fourteen thousand five hundred and fifty-two Saudi riyals, and the value of the provision for slow-moving goods amounted to (2,239,844) two million two hundred and thirty-nine thousand eight hundred and forty-four Saudi riyals, i.e. a ratio of 2.19. % of the total inventory value before deducting the provision. The inventory turnover rate (cost of revenue to net inventory value) was 1.18 times, with the average number of inventory days during the year reaching 309 days.
- As of June 30, 2023G, the net value of the Company's inventory amounted to (100,694,561) one hundred million six hundred and ninety-four thousand five hundred and sixty-one Saudi riyals, and the value of the provision for slow-moving goods amounted to (2,868,973) two million eight hundred and eighty-six thousand nine hundred and seventy-three Saudi riyals, or a rate of 2.77%. Of the total inventory value before deducting the allowance. The inventory turnover rate - calculated on a semi-annual basis (cost of revenues to net inventory value) was 1.09 times, while the average number of inventory days - calculated on a semi-annual basis was 334 days.

It is worth mentioning that the value of the goods written off due to their advanced age constituted (4,100,878) four million one hundred thousand eight hundred and seventy-eight Saudi riyals during the year 2020G, and (4,853,338) four million eight hundred and fifty-three thousand three hundred and thirty-eight Saudi riyals during the year 2021G, and (7,906,787) seven million nine hundred and six thousand seven hundred and eighty-seven Saudi riyals during the year 2022G, and (4,732,610) four million seven hundred and thirty-two thousand six hundred and ten Saudi riyals during the first half of the year 2023G, i.e. at a rate of 4.97%, 6.52%, 7.89%, and 4.70% of the total inventory value respectively.

If the Company is unable to manage its inventory in an appropriate and accurate manner, or if fundamental and unexpected changes occur in the demand for its products, this will lead to an accumulation of inventory or a shortage, as the case may be, and thus this will negatively affect the Company's ability to implement established sales plans, launch new products in the market, or changing pricing strategies, or expiration of products in the event of inventory accumulation, and this will reflect negatively on the Company's business, results of operations, financial condition, and future prospects. If the Company is unable to sell all slow-moving goods, this will negatively affect the Company's results, financial performance and profitability.

2-1-17 Risks related to non-compliance with quality standards and specifications required by customers

Avalon Pharma always seeks to maintain the satisfaction of its customers by providing its products and services within the highest quality standards. The Company has obtained four ISO certificates (see Section No. (4-18-1) «**ISO Certificates**» of this Prospectus), which indicates its implementation of a system to confirm the quality of its products, services, and manufacturing processes by adhering to the required international specifications and standards.

Through the Quality Control Department, the Company applies policies and standards for its employees to continuously adhere to them and ensure the effectiveness of quality control (see Section No. (4-18) «**Quality Control**» of this Prospectus). It sets systems, controls and training programs for employees in this regard. The Company also adopted a quality control policy through continuous testing of manufactured products, developing a quality guide for each test and each device, and analyzing raw materials in laboratories upon receipt to ensure their compliance with approved standards and specifications before using them in production operations. Also, it conducts periodic tours according to a specific timetable to ensure that work continues according to the required standards.

If the Company is unable to continue providing the same level of quality for any reason, this will negatively affect its reputation with its customers and their continuity of dealing with it, and thus will have a negative and material impact on the Company's sales, results of operations and financial performance.

2-1-18 Risks related to storage

Avalon Pharma stores raw materials, medicines, preparations and finished products in qualified warehouses equipped to store medical products according to the required health conditions. The Company owns a main warehouse, «**Avalon Warehouse (4)**» in the city of Riyadh. It has also rented 3 other warehouses of different sizes in Riyadh, Jeddah, and Dammam (see Section No. (4-25) «**Storage and Shipping**» of this Prospectus). In the event the Company is unable to

maintain the quality of basic materials before using them in the manufacturing process and store them appropriately, or if the final products are poorly stored in a way that affected their quality before they are delivered to customers, this will have a negative and material impact on the Company's business and financial performance.

2-1-19 Risks related to the breakdown of machinery and equipment, the mechanism of use, and manufacturing defects

The process of producing medicines, health products, and other company products takes place in its factories, and the production lines in the factories include several advanced and specialized machines, equipment, and tools (see Section (4-17) «**The Company's Factories**» of this Prospectus). Accordingly, production lines or any other machines and equipment may break down as a result of various factors, including the Company's failure to carry out periodic or emergency maintenance, the aging of spare parts, or the failure of the production management to implement the required use mechanism and manage the production process correctly, which leads to damage to the products during manufacturing and presence of manufacturing problems and defects.

It is worth noting that the Company was subjected to an accident beyond its control during the month of August 2023G, as a result of a traffic collision at the main gate of the Avalon Factory (1) between two trucks that did not belong to the Company. The accident resulted in damage to the main gate and to one of the solid medicine production lines. The production line was disrupted for a full month from 01/08/2023G to 31/08/2023G. A damage report was prepared and submitted to the truck driver's insurance company for compensation, and the necessary documents and procedures are being completed with the insurance company. The damage was estimated at approximately (1,000,000) million Saudi riyals, including the value of repairing the gate at approximately (80,000) eighty thousand Saudi riyals, and the value of loss of productivity for the production line for an entire month, which was estimated at approximately (920,000) nine hundred and twenty thousand riyals, according to the production plan for that month. If the insurance company does not agree to compensate the Company for the full value of the estimated damages or any part thereof, and if the Company does not obtain any compensation for the value of the estimated damages, this will have a negative impact on the Company's results of operations, profitability and financial performance..

In the event of any defect, malfunction, accident, or sudden interruption in the work of the factory lines, this will negatively affect the Company's ability to meet the needs of its customers, in addition to a decline in its production capacity, which will lead to a decrease in production volume and have a negative and material impact on the Company's business, financial condition and results of operations.

2-1-20 Risks of rising energy and water prices

The Council of Ministers issued Resolution No. (95) dated 17/03/1437H (corresponding to 28/12/2015G) raising the prices of energy products, electricity consumption tariffs, and the price of selling water and sanitation services to the residential, commercial, and industrial sectors, as part of policies related to rationalizing energy consumption and reducing government support in the Kingdom. The Ministry of Energy also issued a statement on 24/03/1439H (corresponding to 12/12/2017G) regarding the financial balance program plan to correct the prices of energy products, starting on 14/04/1439H (corresponding to 01/01/2018G). It is worth mentioning that the Company's energy and water consumption expenses amounted to (1,600,293) one million six hundred thousand two hundred and ninety-three Saudi riyals during the year 2020G, and (1,512,497) one million five hundred and twelve thousand four hundred and ninety-seven Saudi riyals during the year 2021G, and (1,908,040) one million nine hundred and eight thousand forty Saudi riyals during the year 2022G. The Company's operational activities depend on the availability of energy and electricity products, so any interruption or reduction in supplies of these products or any increase in their prices would greatly affect the Company's profitability, results of operations and future prospects.

2-1-21 Risks related to health and safety policies

The Company's manufacturing operations are subject to the laws and regulations related to environmental protection, health, and safety in the Kingdom which imposes strict standards that the Company must adhere to on an ongoing basis. The Company's compliance with laws and regulations results in operational costs that may increase if these systems are developed or new systems and requirements are added, especially if they result in modifications to the manufacturing, operating, selling or storage processes. If the Company fails to comply with the requirements of these laws and regulations, this will lead to the imposition of penalties on the Company, such as the cessation of some or all of its operational work, or the withdrawal of relevant licenses, which will have a negative and material impact on the Company's business, results of operations, financial performance, and reputation.

2-1-22 Risks related to non-issuance or non-renewal of licenses, permits and regulatory certificates

Avalon Pharma currently operates under a number of licenses, certificates, and regulatory and operational permits related to its activity, which it obtained from the competent regulatory authorities in the Kingdom. The number of regulatory and operational licenses, certificates, and permits under which the Company operates is thirty-five (35), all of which are valid (see Section No. (12-5) «**Certificates, Approvals, and Licenses Obtained by the Company**» of this Prospectus). They include, but not limited to, Certificates of Registry for the Company and its branches issued by the Ministry of Commerce, licenses from the Ministry of Industry and Mineral Resources, licenses from the Food and Drug Authority, trademark registration certificates, Chamber of Commerce membership certificate, municipal licenses, environmental permits, civil defense permits, Saudization, Zakat and social insurance certificates, activity practicing licenses, and others.

It is worth noting that the Company is currently working on obtaining the following:

- A permit from the Civil Defense for the Company's main warehouse in Riyadh.
- A permit from the Civil Defense and a municipal license for the Company's warehouse in Riyadh.
- A permit from the Civil Defense and a municipal license for the Company's warehouse in Jeddah.
- A permit from the Civil Defense for one of the Company's headquarters in Jeddah.

(See Section No. (12-7) «**Properties owned and leased by the Company,**» Section No. (4-25) «**Storage and Shipping,**» and Section No. (12-5) «**Certificates, Approvals, and Licenses Obtained by the Company**» of this Prospectus.)

Failure to renew and/or obtain a civil defense license violates the Civil Defense System issued by Royal Decree No. (M/10) dated 10/05/1406H (corresponding to 21/01/1986G) and amended by Royal Decree No. (M/66) dated 02 /10/1424H (corresponding to 26/11/2003G), which will expose the Company to penalties and fines stipulated in Article (30) of the same system. They stipulate of a penalty on the violator of any provision of this system, its regulations, or the decisions issued based on it with imprisonment for period not exceeding six months, or a fine not exceeding thirty thousand (30,000) Saudi riyals, or both. Failure to renew and/or obtain a civil defense license will also result in the Company being unable to renew and/or obtain a municipal license. If it is unable to obtain a safety license from the Civil Defense, this will lead to the closure of the headquarters until the regulatory procedures are completed. Failure to issue a municipal license is considered a violation of the requirements of the Ministry of Municipal, Rural Affairs and Housing, which may expose the violating company to the penalties stipulated in the Penalties Regulations for Municipal Violations issued on 05/02/1442H (corresponding to 22/09/2022G), which may reach five hundred thousand (500,000) Saudi riyals, in addition to the closure of the branch. If any of these factors occur, they will negatively and materially affect the Company's business, results of operations, financial condition, and future prospects.

In addition, the Company has three accounts with the Labor Office in the Kingdom through which it registers all employees working for it as follows:

- The file of the Middle East Pharmaceutical Industries Company with commercial registration number (1010150538).
- Branch file - Middle East for Distribution - Riyadh, with commercial registration number (1010175025).
- Branch file - Middle East for Distribution - Jeddah, with commercial registration number (4030161826).

(See Section No. (4-27) «**Employees and Saudization**» of this Prospectus.)

The Company must open accounts for its branches when there is a need to register new employees in those branches, and it has not opened accounts with the Labor Office for all of its other branches in the Kingdom, which number (8) eight branches, as there are no employees registered in those branches.

All licenses obtained by the Company must remain in effect on an ongoing basis through the Company's compliance with the regulations and laws related to those licenses. If the Company fails to comply with this, some or all of those licenses may be suspended, or the Company may not be able to renew existing licenses or obtain new licenses that it may need for other purposes, such as expansion, which will lead to the Company's business stopping or faltering, and thus this will have a negative and material impact on the Company's business results, financial condition and future prospects.

2-1-23 Risks related to potential legal Zakat entitlements and additional claims

The Company submits its Zakat and tax returns to the Zakat, Tax and Customs Authority annually within the specified time and pays the amounts due on it annually. It is worth noting that the Company has submitted its Zakat returns until December 31, 2022G, and the Zakat has been settled according to the Zakat returns, as it obtained a Zakat certificate from the Zakat, Tax and Customs Authority, valid until 21/10/1445H (corresponding to 30/04/2024G).

- The Company received the Zakat assessments from the Zakat, Tax and Customs Authority for the fiscal years starting from the Company's establishment until the end of 2022G.
- During the month of October 2023G, the Company received the Zakat assessments from the Zakat, Tax and Customs Authority for the years from 2018G to 2022G, with an additional obligation amounting to (401,963) four hundred and one thousand nine hundred and sixty-three Saudi riyals, and it will settle it in full as soon as the related invoices are issued by the Zakat, Tax and Customs Authority.
- There are currently no outstanding Zakat claims, amounts or disputes with the Zakat, Tax and Customs Authority, and if there are any future claims for any of the previous fiscal years, the Company will bear them.

(See Section No. (12-11) «**Zakat and Tax Status**» of this Prospectus)

The Company made a provision for Zakat amounting to (5,182,820) five million one hundred and eighty-two thousand and eight hundred and twenty Saudi riyals as of December 31, 2020G, and (4,790,776) four million seven hundred and ninety thousand seven hundred and seventy-six Saudi riyals as of December 31, 2021G, and (5,586,592) five million five hundred and eighty-six thousand, five hundred and ninety-two Saudi riyals, as of December 31, 2022G, and (3,110,247) three million, one hundred and ten thousand, two hundred and forty-seven Saudi riyals, as of June 30, 2023G.

The Company cannot predict that the Zakat, Tax and Customs Authority will accept its Zakat and tax estimates for each future fiscal year. The Zakat, Tax and Customs Authority may impose substantial Zakat differences that exceed the value of what the Company pays, in addition to fines for late payment of those amounts, which the Company shall bear. If this happens, it will have a negative impact on the Company's business results, financial performance and future prospects.

2-1-24 Risks related to reliance on major suppliers

The Company relies heavily in its business on local and international suppliers outside the Kingdom of Saudi Arabia (see Section No. (4-20) «**Main Suppliers**» of this Prospectus) and on their ability to provide the goods in the required quantity and within the required time frame. The most important raw materials used that the Company supplies on an ongoing basis and in sufficient quantities to cover its manufacturing needs are the various basic chemicals that are relied upon in the manufacture of medical preparations in terms of effectiveness and concentration, in addition to containers and packaging materials.

Through the procurement policy, the types of raw materials required and their quantities are determined based on periodic purchasing plans specified by the Company's production department, where they are requested from suppliers in advance and for a period of no less than (6) six months. This procurement policy ensures the provision of materials on time and the presence of alternative suppliers in the event that these materials, or some of them, are not available from one of the suppliers. It also helps the Company obtain them at pre-determined prices without being affected by price fluctuations.

The Company's purchases from suppliers amounted to (106,033,837) one hundred and six million and thirty-three thousand eight hundred and thirty-seven Saudi riyals during the year 2020G, and (60,182,539) sixty million one hundred and eighty-two thousand five hundred and thirty-nine Saudi riyals during the year 2021G, and (98,647,312) ninety-eight million six hundred forty-seven thousand three hundred and twelve Saudi riyals during the year 2022G, and (45,196,593) forty-five million one hundred and ninety-six thousand five hundred and ninety-three Saudi riyals during the first half of the year 2023G, where purchases from the five main suppliers constituted 34.7%, 29.0%, and 27.0% and 31.19% of total purchases, respectively. The reason for the decrease in purchases from suppliers in 2021G is due to the Company's availability of sufficient stock from the previous year's purchases in 2020G, especially raw materials. Purchases from suppliers increased during the year 2022G with the increase in sales, and after the new regulations issued by the Food and Drug Authority in 2022G imposed on manufacturers to maintain a stock sufficient for at least (6) months.

On 21/05/1441H (corresponding to 16/01/2020G), the Company signed an exclusive distribution agreement for a period of three calendar years with the British company Emulsion Cosmetics Limited (Avalon Pharma owns 15% of it through its subsidiary Avalon Cosmetics Ltd) to supply products to the Kingdom, including essential oils for skin care. The agreement included a non-competition clause, whereby Avalon Pharma cannot produce, sell, and/or contract with any company that offers products competitive with the products subject of the agreement. It is worth noting that the agreement with Emulsion Cosmetics Limited has been terminated as it faced problems related to liquidity and is being liquidated. The Company's entry into any supply and distribution agreements that include similar contractual terms will limit its ability to compete and expand in the production and marketing of the products it imports, which will negatively and materially affect its competitiveness, business results and future prospects.

In addition, despite the multiplicity and diversity of suppliers, which reduces the Company's dependence on a specific supplier, this may not be available for products that can be provided by a specific supplier or an exclusive agent or exclusive distributor for a category of products in the Kingdom, especially active pharmaceutical ingredients and imported preparations. The Company may not be able to continue to rely or deal with the suppliers it deals with, either because of a change in the existing relationships between them, or because of the increase in the cost of obtaining products, or because of the supplier's inability to provide the Company with the required quantities of products according to the necessary quality and on appropriate time, or because of the supplier's desire to cancel or not renew the agreement. In addition, suppliers of pharmaceutical materials inside and outside the Kingdom are subject to regulatory requirements and continuous monitoring by the relevant official authorities, and the Company may not be able to continue dealing with them if they do not comply with these requirements. If any of these situations occur, it will negatively affect the Company's business, financial condition and future prospects.

2-1-25 Risks related to relying on distributors outside the Kingdom

Avalon Pharma relies heavily in its business on international distributors outside the Kingdom of Saudi Arabia, as it has concluded several distribution agreements with a number of companies and pharmacies in the Gulf states, the Middle East and Africa, through which it gives these companies the right to sell, distribute and market Avalon Pharma products (see Section No. (12-6-2) «**Summary of the Company's Essential contracts**» from this Prospectus).

- Total revenues from the Company's sales to its distributor customers outside the Kingdom amounted to (22,582,438) twenty-two million five hundred and eighty-two thousand four hundred and thirty-eight Saudi riyals during the year 2020G, i.e. 7.49% of total revenues.
- The total revenues from the Company's sales to its customers from distributors outside the Kingdom amounted to (27,441,511) twenty-seven million four hundred and forty-one thousand five hundred and eleven Saudi riyals during the year 2021G, or 9.55% of total revenues.
- The total revenues from the Company's sales to its distributor customers outside the Kingdom amounted to (26,110,944) twenty-six million, one hundred and ten thousand, nine hundred and forty-four Saudi riyals during the year 2022G, i.e. 8.66% of total revenues.
- The total revenues from the Company's sales to its distributor customers outside the Kingdom amounted to (10,914,342) ten million nine hundred and fourteen thousand three hundred and forty-two Saudi riyals during the first half of the year 2023G, or 7.35% of total revenues. (See Section No. (4-23) «**Outline of Revenues**» and Section No. (6-2-1-1) «**Revenues**» of this Prospectus.)

Any changes in contracts with distributors outside the Kingdom, such as canceling existing agreements or not renewing them, or distributors dealing with other companies, or changes in the regulatory environment in export countries, will limit the Company's ability to export its products outside the Kingdom and enter new markets around the world.

In addition, Avalon Pharma always seeks to select approved external distributors with a good reputation, appropriate marketing ability, and quality of service, which reflects positively on the Company's business and reputation outside the Kingdom. Not all distributors may comply with the laws and regulations of the countries in which they operate, especially those originating from them, or one may engage in misconduct or corruption, such as selling counterfeit or expired products or gouging their prices.

If any of these factors occur, it will affect the Company's reputation outside the Kingdom, its business results, financial performance, and future prospects.

2-1-26 Risks related to standardizing the purchase of medicines, devices and medical supplies

The Kingdom aims to develop the level of performance of the healthcare sector by strategically improving healthcare facilities in all public hospitals and medical centers in the Kingdom, and increasing spending efficiency with regard to purchases of medicines, devices and medical supplies. From this standpoint, the National Unified Purchasing Company for Medicines, Devices and Medical Supplies (NUPCO) was established in 2009 to provide medical purchasing, storage and distribution services for medicines, devices and medical supplies in the Kingdom of Saudi Arabia. It is a company wholly owned by the Public Investment Fund. The Company's revenues may be more concentrated in the future regarding government sector purchases of medicines and pharmaceutical preparations from NUPCO. In addition, the Company's profit margins may shrink in the future as part of the strategy to increase spending efficiency, which will have a negative and material impact on the Company's performance, operational activities, financial condition and future prospects.

2-1-27 Risks related to the volume of Government spending on the health sector

The company mainly deals with a number of customers within the Kingdom, and some of the company's main customers are Saudi health institutions affiliated with government agencies, including the National Company for the Unified Procurement of Medicines, Medical Devices and Supplies (NUPCO) (see Section No. (12-6-2) «**Summary of the company's Essential contracts**» of this prospectus). The percentage of revenues from customers in the government sector constituted about 29.2% of the Company's total revenues during the year 2020G, 22.9% of the Company's total revenues during the year 2021G, 22.7% of the Company's total revenues during the year 2022G, and 22.8% of the Company's total revenues during the first half of the year 2023G. The Company's work in the government sector depends mainly on the volume of government spending in the health sector and on the volume of budgets determined by the Kingdom's government in relation to this sector. Accordingly, any unfavorable fluctuations in the level of macroeconomic performance in the Kingdom may negatively affect government spending in general, and that related to the health sector in particular, which may reflect negatively on the Company's business and financial performance. In addition, the Company's ability to collect its receivables on the due date may be affected as a result of these fluctuations, as the average time period from delivering products to government sector customers until collecting the receivable balances from them ranges between 180 to 365 days, and this will have a negative and material impact on the Company's business results, financial performance and future prospects.

2-1-28 Risks related to non-compliance with the standards of the Food and Drug Authority and other regulatory bodies

Avalon Pharma is subject to the regulatory procedures and requirements imposed by the Saudi Food and Drug Authority in the Kingdom on its products in accordance with the regulations for Pharmaceutical and Herbal Establishments and Preparations issued by Royal Decree No. (M/108) dated 22/08/1440H and its implementing regulations. The Food and Drug Authority carries out periodic supervisory operations to ensure the Company's compliance with them. Among the most important procedures and requirements of the Food and Drug Authority that the Company must adhere to are:

- Establishing a scientific office that works to ensure full compliance with the regulations issued by the Food and Drug Authority.
- Obtaining approval from the Food and Drug Authority for manufactured and/or imported pharmaceutical products.
- The required clinical trial procedures and product registration.
- Standards used in developing and installing products and manufacturing principles.
- Quality control instructions in manufacturing.
- Approved pricing rules for medicines, pharmaceutical and herbal preparations.
- Storage, shipping and distribution procedures.
- Requirements for marketing, packaging and packing products and the contents of external labels on them.

In addition, the average time taken by the Food and Drug Authority is 12 to 18 months to approve manufactured and/or imported pharmaceutical products, 8 to 12 months to approve herbal health care products, 2 to 4 months to approve medical devices, and 1 to 2 weeks for cosmetic approval. In the event of any delay in obtaining approval for any reason, such as if any of the Company's products do not conform to the required standards, a request for further experiments, or the presence of observations on the quality of the product, pricing, distribution, etc., or in the event that the Food and Drug General Authority changes its procedures and regulatory requirements, or impose additional and/or new requirements, this will add more costs on the Company, and may limit its ability to obtain the necessary approvals in an acceptable period of time or obtain them at all. This will negatively affect the Company's business, financial condition, results of operations and future prospects.

The Company is committed to the procedures and regulatory requirements imposed by the Food and Drug General Authority in the Kingdom. The Company has never violated them and has not been exposed to any violations or fines by the Food and Drug General Authority as of the date of this Prospectus. In the event that the Company does not comply with any of the standards of the Saudi Food and Drug Authority or the rules and regulations, this may expose it to official warnings and/or financial fines that may reach (500,000) five hundred thousand Saudi riyals, or to the cancellation of the license granted to it, which will have a material and negative impact on the Company's business, reputation, financial condition, results of operations and future prospects.

The Company's operations outside the Kingdom are also subject to the supervision of the relevant competent regulatory authorities, and regulations may differ from one country to another or change in the future, which would expose it to a ban on the sale of its pharmaceutical products there, or result in penal fines in accordance with the applicable laws, which will negatively affect the Company's business, operations and future prospects.

2-1-29 Risks related to the withdrawal of the Company's products from the market

Avalon Pharma invests in developing and registering new, sound, high-quality products on an ongoing basis. Medicines and preparations are subjected to a cycle of analysis, treatment, careful follow-up, and adequate clinical trials before obtaining approval from the Saudi Food and Drug Authority. In addition, the Company monitors the performance of its products and their results on consumers for long periods after their launch. Despite this, the Company is exposed to the risk of problems arising in some products after their launch in the markets, whether in the Kingdom or abroad.

It is worth noting that the Company had previously withdrawn three products from the market in accordance with the directives of the Food and Drug Authority, as shown in the following table:

Table No. (19): Products withdrawn from the market

	Product name	Therapeutic category	Product withdrawal date	Product withdrawal details
1	Avalon Povidone	Oral Health	April 2021G	One batch of the product, amounting to 9,695 packages, was withdrawn because it contained impurities, and the losses incurred as a result of the withdrawal were estimated at 39,806 Saudi riyals.
2	Dexa Cream	Dermatology / Skin Care	August 2021G	One batch of the product, amounting to 88 packages, was withdrawn due to the product becoming liquid instead of remaining in the form of a cream. The losses incurred as a result of the withdrawal were estimated at 190 Saudi riyals.
			February 2022G	One batch of the product, amounting to 3,478 packages, was withdrawn due to the product becoming liquid instead of remaining in the form of a cream. The losses incurred as a result of the withdrawal were estimated at 7,528 Saudi riyals.
3	Avalon care Biocellulose Anti-Aging Mask	Dermatology / Skin Care	October 2022G	The first batch of the product, amounting to 11,402 packages, was withdrawn, as the Saudi Food and Drug Authority changed the classification of the use of the product after listing it from « alleviating the signs of aging and reactivating the functions of stem cells in the skin » to becoming listed for the use of « alleviating the signs of aging and stimulating the skin to remain fresh and harmonious. » The losses incurred as a result of the withdrawal were estimated at 76,151 Saudi riyals, and it was relaunched in the market.

Source: Avalon Pharma Company

The Company does not guarantee that problems will not appear in some new products, such as side effects, health problems, lack of bioequivalence, or lack of acceptance among consumers that have not previously appeared during the clinical trial period. This may be limited by the availability of sufficient numbers of patients who want to try new medicines, or because being satisfied of a period of time insufficient for monitoring the effectiveness of the drug and its side effects is.

If problems arise in any of the Company's products as a result of what was mentioned, or if the Company's products, quality and safety are exposed to other factors such as poor storage by customers or distributors before selling to the consumer, imitation, fraud and manipulation by others, or negative media reputation, the Company will have to withdraw the product from the local or global markets, and thus this will have a material and negative impact on the Company's business, reputation, financial condition, results of operations and future prospects.

2-1-30 Risks related to the pricing policy of pharmaceutical products

The pricing process for pharmaceutical and pharmaceutical preparations is subject to the pricing rules approved by the Board of Directors of the Food and Drug Authority pursuant to Resolution No. (12-26-1442) dated 22/03/1442H (corresponding to 08/11/2020G), which entered into force on 01/06/1442H (corresponding to 14/01/2021G). According to these rules, Avalon Pharma must always adhere to the pricing regulations for pharmaceutical products, which imposes negotiating pressure on it with its major clients in the government and private sectors. In addition, the current pricing rules may be subject to future modifications that may affect its profit margins, which the Company cannot predict.

Any future amendments or changes in the pricing rules for pharmaceutical and pharmaceutical preparations by the Saudi Food and Drug Authority may negatively affect the Company's returns and profit margins, and this will negatively affect its business results, financial performance and future prospects.

2-1-31 Risks related to currency exchange rate fluctuations

Currency exchange rate risk is the fluctuation in the value of financial investments due to changes in the exchange rate of foreign currencies. Companies face currency exchange rate risks most often when they have business relationships with international parties or suppliers of goods imported from abroad that require them to deal with them in foreign currencies.

The Company conducts most of its financial transactions in Saudi riyals, and it conducts some financial transactions with international parties outside the Kingdom in US dollars, euros, British pounds, UAE dirhams, Swiss francs, Jordanian dinars, and Omani riyals (see Section No. (6-1-2-6) «Risks related to the Company's payables» of this Prospectus). The following table shows the Company's foreign currency exposures during the years 2020G, 2021G, 2022G, and the first half of 2023G:

Table No. (20): The Company's foreign currency exposures

	As of December 31, 2020G (SAR)	As of December 31, 2021G (SAR)	As of December 31, 2022G (SAR)	As of June 30, 2023G (SAR)
U.S. dollar	956,789	1,484,552	331,396	1,878,806
Euro	(27,266)	(932,612)	(836,237)	(170,624)
Sterling pound	(215,301)	(197,141)	(267,980)	(88,516)
Emirati dirham	(187,682)	(181,974)	(1,056,074)	(776,048)
Swiss franc	(18,869)	(39,631)	(28,008)	-
Jordanian Dinar	-	(2,153)	-	-
Omani Riyal	-	575	-	-

Source: The audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022, and the reviewed consolidated financial statements for the six-month period ending on June 30, 2023G.

Note: The value of the Company's exposure to foreign currencies mentioned in the above table represents the net value of financial assets and liabilities in foreign currencies.

The following table shows the profits and losses that resulted from currency price fluctuations during the years 2020, 2021, 2022, and the first half of 2023G:

Table No. (21): Currency fluctuation gains/losses

	As of December 31, 2020G (SAR)	As of December 31, 2021G (SAR)	As of December 31, 2022G (SAR)	As of June 30, 2023G (SAR)
U.S. dollar	(314,257)	85,921	(255,426)	(74,728)
Euro	(5,206)	28,135	508,146	(358,645)
Sterling pound	(43,659)	75,058	32,338	(19,495)
Emirati dirham	26,442	(8,220)	(14,851)	(16,486)
Swiss franc	(7,731)	1,247	2,666	(2,786)
Jordanian Dinar	(48)	1,165	218	(305)
Omani Riyal	-	-	-	-
Total profit (loss)	(344,459)	183,306	273,091	(472,445)

Source: Avalon Pharma Company

Therefore, the Company is exposed to the risks of fluctuations in foreign exchange rates with respect to its obligations and expenses related to those currencies, as any large unexpected fluctuations in exchange rates will negatively affect the Company's financial performance.

2-1-32 Risks related to the concentration of the Company's revenues

The Company achieves its revenues entirely from developing, manufacturing, marketing and distributing a wide range of generic medicines and pharmaceutical preparations in the Kingdom of Saudi Arabia and abroad (see Section No. (4-23) «Outline of Revenues» of this Prospectus). If the Company's revenues decrease with fluctuations in product prices or an increase in the costs of providing them, or if demand for the Company's products decreases, this will have a material negative impact on the Company's performance, the results of operations and its financial position.

In addition, the Company's products fall under a number of therapeutic categories. The following table shows the Company's revenues according to therapeutic categories during the years 2020G, 2021G, 2022G, and the first half of 2023G:

Table No. (22): Revenues by product categories

Category	Fiscal year ending on December 31, 2020 (SAR)	Percentage from total	Fiscal year ending on December 31, 2021 (SAR)	Percentage from total	Fiscal year ending on December 31, 2022 (SAR)	Percentage from total	Six-month period ending on June 30, 2023 (SAR)	Percentage from total
Medicines, skin products and skin care products	105,741,769	35.05%	143,041,775	49.80%	150,254,923	49.64%	82,294,722	55.41%
Respiratory medications	35,381,953	11.73%	49,539,467	17.25%	71,996,062	23.79%	29,638,142	19.96%
Nervous system medications	22,361,562	7.42%	27,466,669	9.56%	26,020,995	8.60%	12,237,077	8.24%
Gastrointestinal medications	6,824,426	2.26%	11,303,999	3.94%	13,463,349	4.45%	6,823,735	4.59%
Musculoskeletal drugs	10,776,645	3.57%	14,194,262	4.94%	11,620,794	3.84%	6,827,004	4.60%
Other medications in various therapeutic categories	120,573,870	39.97%	41,675,897	14.51%	29,306,095	9.68%	10,698,342	7.20%
Total	301,660,225	100.00%	287,222,069	100.00%	302,662,218	100.00%	148,519,022	100.00%

Source: Avalon Pharma Company

As shown in the previous table, there is a concentration in revenues from the category of medicines, skin products, skin care products, and respiratory medicines during the past years, as they constituted 55.41% and 19.96% of total revenues, respectively, during the first half of 2023G, and they constitute Combined, 75.37% of the Company's total revenues.

The following table shows the distribution of the Company's revenues by business sector during the years 2020, 2021, 2022, and the first half of 2023:

Table No. (23): Revenues by business sector

	Fiscal year ending on December 31, 2020 (SAR)	Percentage from total	Fiscal year ending on December 31, 2021 (SAR)	Percentage from total	Fiscal year ending on December 31, 2022 (SAR)	Percentage from total	Six-month period ending on June 30, 2023 (SAR)	Percentage from total
Revenue from retail customers	190,917,523	63.29%	194,141,569	67.60%	207,967,773	68.71%	103,741,363	69.85%
Revenues from government sector clients	88,160,264	29.22%	65,638,989	22.85%	68,583,501	22.66%	33,863,317	22.80%
Revenues from export customers	22,582,438	7.49%	27,441,511	9.55%	26,110,944	8.63%	10,914,342	7.35%
Total	301,660,225	100.00%	287,222,069	100.00%	302,662,218	100.00%	148,519,022	100.00%

Source: Avalon Pharma Company

The Company also has a concentration in revenues by business sector, as retail customers have the largest share of total revenues during previous years, at 69.85% of total revenues during the first half of 2023.

If the Company is unable to maintain the diversity of its therapeutic categories or increase sales from them, or if its sales of products in its main categories decrease, this will lead to a decrease in its revenues and business volume. Also, if the Company is unable to maintain the diversity of customers in its business sectors in the future in a way that does not lead to the concentration of revenues on retail customers, and if a good and continuous relationship is not maintained with these customers or the Company fails to develop its relationships with new customers, this will adversely affect the volume of its revenues and business.

The occurrence of any of these mentioned factors will have a negative and material impact on the Company's business, results of operations, financial performance and prospects.

2-1-33 Customer concentration risks

The Company mainly deals with a number of clients within the Kingdom, and the majority of the Company's main clients are companies, health institutions, pharmacies and hospitals in the government and private sectors, the most important of which is the National Company for the Unified Procurement of Medicines, Devices and Medical Supplies (NUPCO), (see Section No. (4-23) «**Outline of Revenues**» of this Prospectus).

The Company's total revenues reached (301,660,225) three hundred and one million six hundred and sixty thousand two hundred and twenty-five Saudi riyals during the year 2020G, and (287,222,069) two hundred and eighty-seven million two hundred and twenty-two thousand and sixty-nine Saudi riyals during the year 2021G, and (302,662,218) three hundred and two million six hundred and sixty-two thousand two hundred and eighteen Saudi riyals during the year 2022G, and (148,519,022) one hundred and forty-eight million five hundred and nineteen thousand and twenty-two Saudi riyals during the first half of the year 2023G. Revenues from the three main clients represented 42.8%, 41.3%, and 37.7% of total revenues during the years 2020G, 2021G, and 2022G, respectively, and 33.6% during the first half of 2023G.

In addition, NUPCO is the regulator of medical purchasing, storage and distribution services for medicines, devices and medical supplies in the Kingdom of Saudi Arabia, and is the Company's main client. NUPCO's role is also to maintain a low pricing level for health products and medicines that the consumer spends on, which reduces the profitability margins of the Company and companies operating in the same sector as the Company. Revenues from NUPCO amounted to (70,250,056) seventy million two hundred and fifty thousand and fifty-six Saudi Riyals during the year 2020, (55,031,466) fifty-five million thirty-one thousand four hundred and sixty-six Saudi Riyals during the year 2021G, (54,988,562) fifty-four million nine hundred eighty-eight thousand five hundred and sixty-two Saudi Riyals during the year 2022G, and (21,647,489) twenty-one million six hundred and forty-seven thousand four hundred and eighty-nine Saudi Riyals during the first half of 2023G, which constituted 23.3%, 19.2% and 18.2% of the company's total revenues during the years 2020G, 2021G and 2022G, respectively, and 14.6% during the first half of 2023G, and constituted 79.7%, 83.8% and 80.2% of the revenues of government sector customers during the years 2020G, 2021G and 2022G, respectively, and 63.9% during the first half of 2023G.

Government sales include sales of the Wasfaty service. Wasfaty service program is one of the electronic services provided by NUPCO in the Kingdom that aims to raise the level of health services and ensure the availability of medicines by linking hospitals and primary health care centers with community pharmacies so that the patient can receive the medicine from the nearest community pharmacy for free, as sales are made through retail channels at bid prices that are lower than retail prices. The Company's revenues through Wasfaty service amounted to (1,534,438) one million five hundred and thirty-four thousand and four hundred and thirty-eight Saudi riyals during the year 2020G, and (4,171,068) four million one hundred and seventy-one thousand and sixty-eight Saudi riyals during the year 2021G, and (11,048,635) eleven million forty-eight thousand six hundred and thirty-five Saudi riyals during the year 2022G, and (7,709,376) seven million seven hundred and nine thousand three hundred and seventy-six Saudi riyals during the first half of the year 2023G, that is, at a rate of 0.5%, 1.5%, 3.7%, and 5.2% of The Company's total revenue respectively. Given that the selling prices through the Wasfaty service are lower than retail prices, and since the Company's future sales may increase through the Wasfaty service, this will reflect negatively on the Company's profit margins, and thus will have a negative impact on the Company's results, financial performance, and future prospects.

NUPCO also periodically offers tenders to provide medicines to government agencies, and the Company has obtained two tenders with NUPCO (see Section No. (12-6-2) «**Summary of the Company's Essential Contracts**» of this Prospectus) as follows:

- NUPCO tender to secure medicines for Wasfaty program NPT0011/20, with a value of (24,015,620) twenty-four million and fifteen thousand six hundred and twenty Saudi riyals, and the Company has delivered medicines covering about 87% of the value of the agreement until the date of this Prospectus.

- NUPCO tender to secure major medicines for government agencies, NPT0015/20, with a value of (19,552,119) nineteen million five hundred and fifty-two thousand one hundred and nineteen Saudi riyals, and the Company has delivered medicines covering about 89% of the value of the agreement until the date of this Prospectus.

NUPCO's tender agreement for the provision of key medicines to government agencies, NPT0015/20, stipulates that NUPCO has the right to review the unit prices awarded at the time it deems appropriate according to the updates provided by the regulatory authorities and the local and global market situation. In the event that there is no agreement with the contracted supplier on a final price after review, NUPCO has the right to cancel the rest of the awarded quantities (see Section No. (2-1-52) «**Risks related to the NUPCO's tender**» of this Prospectus). In the event that NUPCO reviews and reduces the awarded unit prices or if the remaining awarded quantities of the tender are cancelled, this will have a negative and material impact on the Company's results, financial performance, results of operations and future prospects.

Avalon Pharma's profit margins from its sales to NUPCO are lower than the profit margins for retail and export customers, and may decline further from current levels in the future. The Company's revenues from NUPCO's government tenders (not including the impact of revenues from products related to the Corona pandemic) constituted an average of 83.1% of the total revenues of government tenders during the three years 2020G to 2022G, and a percentage of 64.1% during the first half of 2023G. If the Company is unable to achieve satisfactory profit margins from its sales to NUPCO in the future, this will negatively affect the Company's business, financial results and performance in the future.

In addition, the average time period for collecting receivables ranges between 90 to 120 days for retail and export customers, and between 180 to 365 days for government sector customers.

If customer diversity is not maintained in the future in a way that does not lead to concentration of revenues on a limited number of customers, and if a good and continuous relationship is not maintained with major customers or the Company fails to develop its relationships with new customers, this will have a negative and material impact on the Company's business, results of operations and financial performance.

2-1-34 Risks related to protecting trademarks and property rights

Avalon Pharma relies on marketing its products and managing its business operations on the reputation of its brand, which gives it a distinguished position among its customers in the market. The Company owns (157) trademarks registered with the Saudi Authority for Intellectual Property and other regulatory authorities outside the Kingdom (see Section No. (12-9) «**Intellectual Property**» of this Prospectus).

It is worth mentioning that among the Company's trademark certificates, some of them lack images to distinguish their trademark due to a technical defect during their issuance, and work is underway to amend them, as the Company has contacted the Saudi Authority for Intellectual Property to amend these certificates and add their images.

Any illegal use of trademarks will affect the Company's reputation, and may lead to lawsuits being filed against the Company or claims before the competent courts to protect these rights. If the Company fails to protect its trademark effectively, this will negatively affect the value of that trademark, which will reflect negatively on the Company's business, financial results, and performance in the future.

2-1-35 Risks related to lawsuits and fines

As of the date of this Prospectus, the Company has (12) twelve legal cases filed by it, all of which relate to claims for the payment of due sales and supply amounts, which were recognized as revenues for the Company when due, and their total value is estimated at (4,949,750) four million nine hundred and forty-nine thousand seven hundred and fifty Saudi riyals. And (1) one legal lawsuit filed against it, of unspecified value, related to a warehouse that was rented and was vacated by the Company (see Section No. (12-12) «**Litigation**» of this Prospectus). The Company has created a provision for doubtful debts for the value of cases in which the Company was a party plaintiff. The Company has not established any provision for lawsuits and claims in which it is a defendant party as of the date of this Prospectus. Since the Company is exposed to lawsuits and complaints during the course of its operational work, it cannot accurately predict the size of the cost of lawsuits or judicial procedures that may be filed or instituted against it, or the final results of those lawsuits or judgments that may be issued against it and the compensation and penalties they include. Therefore, any negative outcomes of such issues may negatively affect the Company and the results of its operations. These lawsuits may include, but are not limited to, matters of Zakat, tax, labor law, social insurance, contracts with customers and suppliers, and other damages resulting from negligence or fraud by persons or entities in a way that is outside the scope of the Company's control.

The Company also concluded a number of contracts and agreements that are subject to interpretation by foreign, non-Saudi laws, such as contracts with some suppliers and distributors outside the Kingdom. These contracts and agreements stipulate that any dispute arising therefrom shall be referred for adjudication by foreign courts or foreign arbitration. In the event of a dispute occurring with one of the contracting parties and a foreign judicial ruling is issued or a ruling is issued against the Company or its subsidiaries based on applicable foreign laws, the legal and financial consequences that the Company or its subsidiaries will be exposed to arising from resolving disputes before large foreign judicial authorities, which will negatively affect the Company's operations, financial condition, results of operations and future prospects.

In addition, Avalon Pharma is keen on the quality of its products and the accuracy of its study of new products and obtaining the approval of the Food and Drug Authority before putting them on the market. However, the Company may be exposed at any time to legal claims or claims from one or some consumers who claim that their health is getting worse, or they are exposed to health problems or side effects as a result of their use of one of the Company's products. This will negatively affect the Company's reputation and consumer demand for its products.

Therefore, any negative results of such cases will negatively affect the Company's reputation, business, results of operations, financial condition and future prospects.

Other than what was mentioned above, the Company and its Board of Directors are not subject to any lawsuits or legal procedures that may materially affect the Company's business or financial condition as of the date of this Prospectus.

2-1-36 Risks related to the adequacy of insurance coverage

The Company has entered into several insurance contracts to cover its business and assets, such as medical insurance for employees, vehicle insurance, property and fixed assets insurance, and others (see Section No. (12-10) «**Insurance**» of this Prospectus), but the Company may not have all the important insurance contracts necessary for its business and assets, or it may not have sufficient insurance cover in all cases. The occurrence of any potential uninsured circumstance resulting from sudden accidents or natural disasters, for example, will negatively and materially affect the Company's business, assets, financial condition and future performance.

2-1-37 Risks related to transactions with related parties

The Company obtained the approval of the Ordinary General Assembly held on 08/03/1444H (corresponding to 04/10/2022G) for all transactions with related parties during the year 2021G, and it obtained the approval of the Ordinary General Assembly held on 20/10/1444H (corresponding to 10/05/2023G) for all transactions with related parties during the year 2022G. It also obtained the approval of the Extraordinary General Assembly held on 28/02/1445H (corresponding to 13/09/2023G) for all transactions with related parties during the first half of the year 2023G. The Company's normal business included dealings with related parties represented by its shareholders on a purely commercial basis without any preferential conditions or transactions.

The total value of transactions with related parties was as follows:

- (138,825) one hundred and thirty-eight thousand eight hundred and twenty-five Saudi riyals during the year 2020G.
- (120,000) one hundred and twenty thousand Saudi riyals during the year 2021G.
- (2,618,670) two million six hundred and eighteen thousand six hundred and seventy Saudi riyals during the year 2022G.
- (1,338,790) one million three hundred and thirty-eight thousand seven hundred and ninety Saudi riyals during the first half of 2022G.
- (1,800,913) one million eight hundred thousand nine hundred and thirteen Saudi riyals during the first half of 2023G.

On 01/01/2023, the Company concluded a legal consultation agreement with lawyer Mr. Faisal Shaher Ahmad Al-Tabbaa, one of the Company's shareholders, under which he provides legal advice to the Company and represents it regarding its legal work. The annual fees were set at (300,000) three hundred thousand riyals, and the agreement is open-ended and subject to termination by both parties (see Section No. (12-6-1) «**Related Party Contracts and Transactions**» of this Prospectus).

The following table shows transactions with related parties during the years 2020, 2021, and 2022G:

Table No. (24): Transactions with related parties during the years 2020G, 2021G, and 2022G

Related Party	Type of Relationship	Type of Transactions	During the year 2020G	During the year 2021G	During the year 2022G*	As of December 31, 2020G	As of December 31, 2021G	As of December 31, 2022G*
			Transaction value (Saudi riyals)			Due from related parties (Saudi riyals)		
Shareholders	Shareholders	Payment of initial public offering costs on behalf of shareholders	-	-	1,329,788	-	-	1,329,788
Mr. Ahmad Shafer Ahmad Al-Tabbaa**	Indirect ownership	Advance payments	-	-	949,814	-	-	949,814
Emulsion Cosmetics Ltd***	Invested company	Advance Payments	-	-	219,068	-	-	219,068
Total					2,498,670	-	-	2,498,670
Percentage of total assets			-	-	0.56%	-	-	0.56%
Percentage of total liabilities			-	-	1.54%	-	-	1.54%
Percentage of revenues			-	-	0.83%	-	-	0.83%
			Transaction value (SAR)			Due to related parties (SAR)		
Mr. Faisal Shafer Ahmad Al-Tabbaa	Shareholder	Paid consulting services	120,000	120,000	120,000	-	-	100,000
Al-Shamila Distribution Limited Company****	Branch of the Company	Disposal expenses of a subsidiary	18,825	-	-	18,825	-	-
Total			138,825	120,000	120,000	18,825	-	100,000
Percentage of total assets			0.04%	0.03%	0.03%	0.01%	-	0.02%
Percentage of total liabilities			0.12%	0.08%	0.07%	0.02%	-	0.06%
Percentage of revenues			0.05%	0.04%	0.04%	0.01%	-	0.03%

Source: Avalon Pharma Company

* Transactions with related parties were reclassified during the year 2022G according to the reviewed consolidated financial statements for the six-month period ending on June 30, 2023G.

** The Chairman of the Board of Directors, Mr. Ahmad Shafer Ahmad Al-Tabbaa, has an indirect ownership of 30.73% in Avalon Pharma, which results from his direct ownership of 51.00% in Tabbaa National Holding Company, which owns 60.25% of the shares of Avalon Pharma.

*** Avalon Pharma owns 15.00% in Emulsion Cosmetics Limited (through its subsidiary Avalon Cosmetics Limited).

**** On 13/10/2021G, the partners in the Company decided to transform the operations of the Al-Shamila Distribution Limited Company to become a branch of the Middle East Pharmaceutical Industries Company, and accordingly, it ceased to be a related party (see Section No. (4-4) «Company History and Milestones of the Capital Structure» of this Prospectus), and this resulted in disposal expenses amounting to 18,825 Saudi riyals during the year 2020G.

The following table shows transactions with related parties during the six-month periods ending on June 30, 2022 and 2023G:

Table No. (25): Transactions with related parties during the six-month periods ending on June 30, 2022G and 2023G

Related Party	Type of Relationship	Type of Transactions	During the first half of 2022G*	During the first half of 2023G	As of June 30, 2022G*	As of June 30, 2023G
			Transaction value (Saudi riyals)		Due from related parties (Saudi riyals)	
Shareholders	Shareholders	Payment of initial public offering costs on behalf of shareholders	703,516	2,600,727	703,516	3,930,515
Mr. Ahmad Shaher Ahmad Al-Tabbaa**	Indirect ownership	Advance payments	356,206	(949,814)	356,206	-
Emulsion Cosmetics Ltd***	Invested company	Advance payments	219,068	-	219,068	219,068
Total			1,278,790	1,650,913	1,278,790	4,149,583
Percentage of total assets			0.30%	0.39%	0.30%	0.97%
Percentage of total liabilities			0.76%	1.11%	0.76%	2.80%
Percentage of revenues			0.96%	1.11%	0.96%	2.79%
			Transaction value (Saudi riyals)		Due to related parties (Saudi riyals)	
Mr. Faisal Shaher Ahmad Al-Tabbaa	Shareholders	Paid consulting services	60,000	150,000	60,000	50,000
Total			60,000	150,000	60,000	50,000
Percentage of total assets			0.01%	0.04%	0.01%	0.01%
Percentage of total liabilities			0.04%	0.10%	0.04%	0.03%
Percentage of revenues			0.05%	0.10%	0.05%	0.03%

Source: Avalon Pharma Company

* Transactions with related parties were reclassified during the year 2022G according to the reviewed consolidated financial statements for the six-month period ending on June 30, 2023G.

** The Chairman of the Board of Directors, Mr. Ahmad Shaher Ahmad Al-Tabbaa, has an indirect ownership of 30.73% in Avalon Pharma, which results from his direct ownership of 51.00% in Tabbaa National Holding Company, which owns 60.25% of the shares of Avalon Pharma.

*** Avalon Pharma owns 15.00% in Emulsion Cosmetics Limited (through its subsidiary Avalon Cosmetics Limited).

(See Section No. (6) «Financial Information, Management Discussion and Analysis» of this Prospectus.)

In addition, the benefits and compensation for the Company's senior management are as follows:

- During the year 2020G, the total benefits and compensation of senior management employees amounted to (7,975,361) seven million nine hundred and seventy-five thousand three hundred and sixty-one Saudi riyals, which are short-term employee benefits worth (6,867,288) six million eight hundred and sixty-seven thousand two hundred and eighty-eight Saudi riyals, and obligations, and renewed employee benefits worth (1,108,073) million one hundred and eight thousand and seventy-three Saudi riyals.
- During the year 2021G, the total benefits and compensation of senior management employees amounted to (10,083,241) ten million and eighty-three thousand two hundred and forty-one Saudi riyals, which are short-term employee benefits worth (8,767,275) eight million seven hundred and sixty-seven thousand two hundred and seventy-five Saudi riyals, and benefit obligations, and renewed for employees at a value of (1,315,966) million three hundred and fifteen thousand nine hundred and sixty-six Saudi riyals.
- During the year 2022G, the total benefits and compensation of senior management employees amounted to (10,884,862) ten million eight hundred and eighty-four thousand eight hundred and sixty-two Saudi riyals, which are short-term employee benefits worth (9,822,257) nine million eight hundred and twenty-two thousand two hundred and fifty-seven Saudi riyals, and obligations, and renewed employee benefits worth (1,062,605) million and sixty-two thousand, six hundred and five Saudi riyals.

- During the first half of 2023, the total benefits and compensation of senior management employees amounted to (4,635,988) four million six hundred and thirty-five thousand nine hundred and eighty-eight Saudi riyals, which is short-term employee benefits worth (4,383,935) four million three hundred and eighty-three thousand nine hundred and thirty-five Saudi Riyals, and renewed benefits obligations for employees in the amount of (252,053) two hundred and fifty-two thousand and fifty-three Saudi Riyals.

Concluding contracts and transactions with related parties is subject to the provisions of the relevant laws and regulations. In accordance with Article (27) twenty-seven and Article (71) seventy-one of the Companies Law, the approval of the General Assembly must be obtained for any transactions in which any member of the Company's board of directors has a direct or indirect interest. It is prohibited for any member of the board of directors who has an interest in those transactions to vote on those transactions, whether at the level of the Board of Directors or the shareholders' assemblies. If the Company's general assembly votes not to approve the renewal of contracts with related parties for any reason, and if the Company is unable to find the appropriate alternative, under the appropriate conditions and within the required time period, this will negatively affect the Company's business, results of its operations and future prospects.

Other than what was mentioned above, the Company acknowledges that there are no contracts or arrangements in effect upon submitting this Prospectus in which any shareholder, the Chairman of the Board of Directors, a member of the Board of Directors, the CEO, the Director of Finance, or other related parties have an interest.

2-1-38 Risks related to the inability to implement the Company's strategic plan

The Company's future performance depends on its ability and success in implementing its business plan and implementing the targeted growth strategy (see Section No. (4-10) «**Company Strategy**» of this Prospectus).

The implementation of the Company's strategy is subject to many factors, some of which are beyond the Company's control, such as the status of economic conditions and their suitability to the Company's expansion plans, the ability to expand the product base and enter into new markets, keep pace with changes in the sector, competition factors in current and new markets, the ability to obtain licenses, regulatory approvals required or obtained within the specified time, the effectiveness of the Company's marketing and promotional campaigns, and the ability to obtain the required financing and human resources necessary to support growth and expansion in the future.

If the Company is unable to successfully implement its future plans for any reason, such as lack of funding, unavailability of labor, failure to obtain the necessary licenses, etc., this will have a negative and material impact on its future performance, and thus on the results of its operations and financial condition.

2-1-39 Risks related to business expansion outside the Kingdom

The Company operates mainly in the Kingdom, and the Company's total export revenues to its customers outside the Kingdom in the Gulf countries, the Middle East and Africa amounted to (22,582,438) twenty-two million five hundred and eighty-two thousand four hundred and thirty-eight Saudi riyals during the year 2020G, and (27,441,511) twenty-seven million four hundred forty-one thousand five hundred and eleven Saudi riyals during the year 2021G, (26,110,944) twenty-six million one hundred and ten thousand nine hundred and forty-four Saudi riyals during the year 2022G, and (10,914,342) ten million nine hundred and fourteen thousand three hundred and forty-two Saudi riyals during the first half of In 2023G, it represented 7.5%, 9.6%, 8.6%, and 7.4% of total revenues, respectively (see Section No. (4-23) «**Outline of Revenues**» of this Prospectus). Through its strategy, the Company intends to expand the geographical scope of its business to new countries such as Egypt, Morocco, Indonesia, and Malaysia by 2026G (see Section No. (4-10) «**Company Strategy**» of this Prospectus). The Company's desire to expand to provide its products in the markets of new countries, the Company may face some challenges such as the lack of experience in those new markets, regulatory and legal requirements, political conditions, the lack of sufficient demand for its products, or the presence of other competing products with preferential prices, and others. If the Company is unable to expand outside the Kingdom in the required manner, this will negatively and directly affect its ability to grow and achieve its strategy, its business, financial condition and future prospects.

2-1-40 Risks related to operational costs and expenses

The cost of revenue includes all direct operating expenses for the Company's business, including labor expenses, raw materials, and other purchases related to manufacturing operations, and it constituted 41.53%, 39.22%, and 39.11% of the Company's total revenues during the years 2020G, 2021G, and 2022G, respectively, and 41.82G. % during the first half of 2023G. The Company also incurs general and administrative expenses during its operations, which mainly include the salaries of the Company's employees and executive management and expenses related to them, and other expenses, fees and bills such as electricity, communications, travel, etc. General and administrative expenses constituted 11.54%, 13.08% and 14.34% of the Company's total revenues. During the years 2020, 2021, and 2022, respectively, and 15.44% during the first half of 2023G.

Any increase in inflation rates in the future in the Kingdom and in the countries from which the Company imports will have a negative impact on the Company's profit margins and revenues, and it may not be able to compensate for the increase in operational costs by increasing the prices of its products at all times. Any increase in the Company's operating costs and expenses is due to several factors, including, but not limited to, the increase in the prices of raw materials and imported products, manufacturing and labor costs, employee salaries and related expenses, and the prices of fuel, electricity, water, communications, shipping, etc. (See Section No. (6) «**Financial Information, Management Discussion and Analysis**» of this Prospectus) will have a material adverse effect on the Company's business, results of operations, financial condition and future prospects.

2-1-41 Risks related to operating systems and information technology

The Company relies on information technology systems to manage its business, and therefore the Company's failure to maintain and develop its information technology systems, or any malfunctions in its functions, will negatively affect the Company's business and financial results. The Company's information technology systems may be damaged by viruses, security breaches, or may be subject to loss or corruption of data, human errors and other similar events. Therefore, if the Company's information systems fail to work as expected, or in the event of loss of information, or misuse of information related to the Company or its customers, this will lead to the disruption of the Company's business, which will negatively and directly affect the Company's reputation, financial condition, or results of its operations and future prospects.

2-1-42 Risks related to Saudization requirements

The Kingdom gives the utmost importance to the issue of nationalization within the framework of «**Vision 2030**», and therefore compliance with Saudization requirements is considered a regulatory requirement according to which all establishments (companies and institutions) are committed to employing Saudis and maintaining a certain percentage of Saudi employees out of the total number of their employees. As of 03/09/2023G, the total number of employees at the Company reached (541), including (9) employees in its branch in the United Arab Emirates. In the Kingdom, the number of employees at the Company is (532), including (159) Saudis and (373) non-Saudis, and thus the overall Saudization rate reached 29.89%. Based on the regulations and instructions of the Ministry of Human Resources and Social Development in the Kingdom regarding the Saudization system (Nitaqat Programme):

- The Middle East Pharmaceutical Industries Company «**Avalon Pharma**» was classified as of 03/09/2023G within the category of medium-sized entities (Category C), as the total number of its employees reached (388), including (120) Saudis and (268) non-Saudis, and thus the Saudization rate reached 30.93%, and thus it falls under the «**medium green range**».
- The Company's branch - Middle East for Distribution - Riyadh, as of 03/09/2023G, was classified within the category of medium-sized entities (Category B), as the total number of employees of the Company branch reached (141), including (38) Saudis and (103) non-Saudis, and therefore the Saudization rate reached 26.95%, and thus it falls under the «**medium green range**».
- The Company's branch - Middle East for Distribution - Jeddah, as of 03/09/2023G, was classified within the category of small entities (Category A), as the total number of employees of the Company branch reached (3) employees, including (1) Saudi and (2) non-Saudi, and therefore the Saudization rate reached 33.33%, and thus it falls under the «**small green range**».

(See Section No. (4-27) «**Employees and Saudization**» of this Prospectus)

If the Company is unable to maintain the required Saudization rate, or if the Ministry of Human Resources and Social Development decides in the future to impose stricter nationalization policies that are difficult for the Company to adhere to, this may lead to the imposition of penalties on the Company, such as suspending applications for work visas and transferring sponsorship for non-Saudi workers, which will have a negative impact on the Company's business, results of operations and future prospects.

2-1-43 Risks related to Government fees applied to non-Saudi employees

Avalon Pharma has (541) employees, including (9) employees in its branch in the United Arab Emirates as of 03/09/2023G. In the Kingdom, the number of employees at the Company is (532), including (159) Saudis and (373) non-Saudis, where non-Saudi employees constitute 70.11% of the total number of employees in the Kingdom (see Section No. (4-27) «**Employees and Saudization**» of this Prospectus). The Kingdom's government has approved a number of decisions aimed at carrying out comprehensive reforms to the labor market in the Kingdom of Saudi Arabia, which included approving additional fees for every non-Saudi employee working for a Saudi entity, as of 01/01/2018G at the rate of (400) four hundred Saudi riyals per month for each non-Saudi employee, to be increased to (600) six hundred Saudi riyals per month for the year

2019G, then to (800) eight hundred Saudi riyals per month for the year 2020G. The total government fees incurred by the Company on non-Saudi employees amounted to (1,913,306) one million nine hundred and thirteen thousand three hundred and six Saudi riyals during the fiscal year ending on December 31, 2020G, and (2,036,847) two million and thirty-six thousand eight hundred and forty-seven Saudi riyals during the fiscal year ending on December 31, 2021G, (1,760,745) million seven hundred and sixty thousand seven hundred and forty-five Saudi riyals during the fiscal year ending on December 31, 2022G, and (1,102,108) million one hundred two thousand one hundred and eight Saudi riyals during the six-month period ending on June 30, 2023G. Any government decision to increase these fees or impose additional fees in the future will lead to an increase in government fees on non-Saudi employees, and an increase in the Company's costs in general, which will negatively affect its business, financial performance and results of operations.

In addition, the government also approved fees for issuing and renewing residency permits for dependents and companions of non-Saudi employees (financial compensation fees for companions), which became effective as of 01/07/2017G, noting that they gradually increased from (100) One hundred Saudi riyals per month for each dependent in the year 2017G, reaching (400) four hundred Saudi riyals per month for each dependent in 2020G. Accordingly, the Company may face difficulty in retaining its non-Saudi employees with the high fees for issuing and renewing residency and their cost of living, and it may raise the wages of its non-Saudi employees to keep them, which will lead to an increase in the Company's costs and negatively affect its business, financial performance and results of operations.

2-1-44 Risks related to reliance on non-Saudi employees

The number of employees at the Company is (541), including (9) employees in its branch in the United Arab Emirates as of 03/09/2023G. In the Kingdom, the number of employees at the Company is (532), including (159) Saudis and (373) non-Saudis, where non-Saudi employees constitute 70.11% of the total number of employees in the Kingdom (see Section No. (4-27) «**Employees and Saudization**» of this Prospectus). Therefore, the Company's business results, financial condition and operational results will be negatively affected if it is unable to maintain qualified non-Saudi cadres or find replacements for them with the same skills and experience required, especially in the event of a change in the policies, regulations and systems of the Ministry of Human Resources and Social Development that will have an impact on the status of non-Saudi workers with the Company.

During the year 2016G, the government approved a number of decisions aiming to implement comprehensive reforms to the labor market in the Kingdom of Saudi Arabia, including approving the imposition of additional fees for every non-Saudi employee working for a Saudi entity as of 01/01/2018G, in addition to increasing the compensation fees for family members of non-Saudi employees as of 01/07/2017G. Accordingly, these decisions will lead to an increase in the government fees that the Company will pay for its non-Saudi employees in general, on the one hand, and to the difficulty of retaining qualified non-Saudi employees on the other hand, which will negatively affect the Company's performance and business results.

2-1-45 Risks related to reliance on key employees

The Company relies on the efforts and supervision of a number of its leadership employees and other key staff members to implement its strategy and daily operations. The key employees constitute an important element for the success of the Company's business, as they possess the necessary experience in the Company's field of work, deep knowledge of operations, and have close relationships with customers, suppliers, and other parties, which the Company deals with. Therefore, the Company's inability to retain them or its inability to attract people with the same caliber will reflect negatively and materially on its business, results of operations and financial performance.

2-1-46 Risks related to existing and future sales contracts and their implementation

Avalon Pharma may be exposed to a number of different risks regarding its work related to current and future sales agreements and contracts, including, but not limited to, the inability to renew some licenses and approvals necessary to implement contracts and supply goods, or delays in renewing them, or the occurrence of changes in demand drivers. This will limit the Company's ability to complete the implementation of some or all of these contracts within the expected time frame, or not complete them at all, which will result in additional costs and negatively affect the Company's business operations.

Some project contracts may require specific commitments on the part of Avalon Pharma. For example, NUPCO's tender agreement for the provision of key medicines to government agencies NPT0015/20, which is the Company's main client, stipulates that NUPCO has the right to review the unit prices awarded at the time it deems appropriate, according to the updates by regulatory authorities and the local and global market situation. In the event of failure to agree with the contracted supplier on a final price after review, NUPCO has the right to cancel the remaining quantities awarded (see Section No. (2-1-52) «**Risks related to the NUPCO's tender**» of this Prospectus). The agreement to develop commercial

and marketing work and raise the level of service with Al-Dawa Medical Services Company, which is one of the Company's three main clients, also stipulates that in the event that the client is unable to dispose of the goods purchased from the Company, he has the right to terminate the agreement without arranging any legal consequences towards the Company. It also stipulates the Company's obligation to compensate the customer in the event of a decline in the Company's selling prices in the market (see Section No. (2-1-55) «**Risks related to not documenting employees' employment contracts electronically**» of this Prospectus).

In addition, when there is any delay in implementing contracts signed with customers and supplying goods within the agreed upon time frame, delay fines may be imposed by customers, which brings additional costs to the Company and directly affects its profitability from those projects.

Therefore, if any of the above-mentioned situations is achieved, this will have a negative and material impact on the Company's business, results of operations, financial performance and future prospects.

It is worth noting that the value of the Company's existing major sales contracts as of the date of this Prospectus amounted to more than 163 million Saudi riyals (see Section No. (12-6-2) «**Summary of the Company's Essential Contracts**» of this Prospectus).

2-1-47 Risks related to potential liabilities

Any potential obligations on the Company, such as costs related to Zakat, taxes, lawsuits, and other obligations or costs related to the Company's activity, if they materialize, will negatively and materially affect the Company's financial condition, financial position, results of operations and future prospects.

2-1-48 Risks related to the Coronavirus (Covid-19) pandemic

The spread of the new Corona virus (Covid-19) began in December 2019G, and the World Health Organization announced its classification of the virus as a global pandemic in March 2020G. The virus then spread widely and rapidly, affecting more than 194 countries around the world, so that the world faced an unprecedented health and economic crisis. In the second half of February 2020G, when the virus spread and reached many countries around the world, many countries began imposing public health containment measures to delay its spread and enhance the capacity of the health sector. The development of the situation in this way led to a sudden stop in economic activities and a sharp decline in economic prospects. As a result, the spread of the virus had a significant impact on the global economy, putting pressure on individuals, companies, and governments.

The government of the Kingdom of Saudi Arabia imposed health and economic measures to contain the consequences of the increasing spread of the virus, like many countries in the world and the region. The health measures included the imposition of a partial or complete curfew in some cities and governorates of the Kingdom, the complete and partial closure of economic and governmental activities, the closure of shopping centers and retail showrooms, and the closure of malls and all activities within them, with the exception of food stores and pharmacies, reducing the number of working hours for some sectors or obligating some to work remotely, etc. They also included suspension of all domestic flights, buses, taxis and trains, suspending entry for the purposes of Umrah and visiting the Prophet's Mosque from outside the Kingdom, and quarantine. Economic measures included financial support for citizens and those affected by the Corona pandemic, state-paid family and sick leave, expansion of unemployment compensation, delaying tax payments, and other measures to support businesses.

Although the Company is committed to the instructions issued by the Ministry of Health and the Ministry of Human Resources and Social Development to implement preventive measures and precautions, including applying social distancing in the workplace, measuring the temperature of every employee when entering the Company's headquarters, and wearing a mask when entering and being present at the Company's headquarters or one of its facilities, the Company does not guarantee that none of its employees will be infected with the virus, which may lead to him being unable to work or transmitting the infection to his colleagues, which may lead to the disruption of its operational activities, and thus negatively affect the Company's business, results of operations, financial condition, and future prospects.

On 03/09/1441H (corresponding to 26/04/2020G), a royal decision was issued to return life to normal and partially lift the curfew in all regions of the Kingdom, while ensuring adherence to precautionary measures of physical distancing and determining the number of people present in workplaces and the provision of services.

On 02/08/1443H (corresponding to 05/04/2022G), the precautionary and preventive measures related to combating the Corona pandemic were lifted as of this date, and the current health situation in the Kingdom is subject to continuous monitoring by the Ministry of Health. All regions and cities of the Kingdom of Saudi Arabia are subject to continued evaluation by the Ministry of Health in the Kingdom.

The Corona pandemic had a mixed impact on the Company's operations in 2020G, as follows:

- Decreased demand for a number of products, the most important of which are respiratory medicines, due to the imposed use of face masks, social distancing, closures, and other measures that were implemented to confront the Corona pandemic. Demand for antifungal products was also negatively affected by the suspension of travel (the main driver of sales in this category).
- Revenues from sanitizer products, face masks, and sanitizer dispensing devices increased from 10.8 million in 2019G to 97.4 million Saudi riyals in 2020G, and then decreased to 20.5 million Saudi riyals in 2021G and to 8.5 million Saudi riyals in 2022G.
- The majority of customers, especially pharmacies, purchased large quantities during the Corona pandemic period in 2020G, which negatively affected revenues in 2021G, as demand from pharmacies decreased from 16.0 million Saudi riyals in the fiscal year 2020G to 10.6 million Saudi riyals in Fiscal year 2021G.

In addition, the Company established Avalon Pharma UK Holdings Limited during the year 2019 (which in turn owns three subsidiaries (1- Avalon Pharma Limited, 2- Avalon Cosmetics Limited, and 3- Avalon Nutrition Limited)) with the aim of investing in new emerging companies in the health sector, pharmaceutical industries, and nutritional or cosmetic supplements, (see Section No. (4-14) «**The Subsidiary**» and Section No. (4-15) «**Investments**» of this Prospectus). The investment plans of these companies have been affected by the Corona pandemic, as the Company was unable to implement its investment plans after the outbreak of the pandemic, and Avalon Pharma UK Holdings Limited and its subsidiaries do not have any existing operations or activities as of the date of this Prospectus, and they have not entered into any business contracts or commercial projects.

Given the lack of clarity of the potential consequences related to developments and updates in the spread of the virus, which may require the re-imposition of a complete or partial lockdown in some cities of the Kingdom, there is no expected date for the end of this epidemic as of the date of this Prospectus. Any developments in the spread of the virus will directly, fundamentally and negatively affect the Company's results and operational work, its future plans, its subsidiaries, its financial performance and future prospects.

2-1-49 Risks related to Privatization of the Health Sector

According to the results of a market study prepared by Euromonitor International (see Section (3-3) «**Overview of the Healthcare Sector**» of this Prospectus), the Government of the Kingdom of Saudi Arabia aims to enhance private sector participation in the healthcare sector by encouraging investments. The role of the private sector is expected to expand its total investments in the healthcare sector from 40% to 65% by 2030G.

The above-mentioned government strategy results in a number of challenges that companies operating in the healthcare sector, specifically pharmaceutical manufacturers such as Avalon Pharma, may face. The challenges include, but are not limited to, the Company's inability to keep pace with developments in the sector, and the entry of new competitors into the market due to investment opportunities for private companies, the existence of strategic alliances between competitors, and a low level of profitability margins for manufacturers. The Company's inability to confront any of these aforementioned challenges will have a negative and material impact on the Company's position, strength in the market, operational work, financial condition and future prospects.

2-1-50 Risks related to research, development and new products

The Company is constantly working to develop new pharmaceutical products and bring them to market as part of its strategy to grow its business and expand its product base. The research and development process for products includes several stages before obtaining approval from the Food and Drug Authority, including determining the type of product and its chemical compositions, designing experiments, developing prototypes, studying the demand for it in the market and its investment feasibility, and conducting clinical trials to ensure its suitability and success (see section No. (4-21) «**Research and Development**» of this Prospectus).

The Company is currently working on studying and developing new products within its current therapeutic categories, which include diabetes medications, chronic primary care products, and cardiovascular and nervous system medications. In addition, the Company has identified some new therapeutic category products that it is studying to manufacture by 2026G, including general injections, ophthalmic products, and medicines for treating cancer (see Section No. (4-10) «**Company Strategy**» of this Prospectus).

The Company may be exposed to a number of risks and/or obstacles regarding research and development work, including, but not limited to:

- Low success rates in developing pharmaceutical products during clinical trials or their lack of success, or the lack of acceptance of the product by customers due to a number of factors such as their prices, the availability of alternative products and methods of use, which results in development costs and expenses to the Company without a return on investment during research and development periods that may extend over a few years.
- Delay in completing research and development operations or in obtaining the necessary regulatory approvals and the resulting high expenses.
- Imposing any new regulatory requirements or procedures in the field of drug development and manufacturing, which may result in additional development costs for the Company or may limit its ability to obtain the necessary approvals.
- The emergence of previously unknown problems or side effects of medicines and products after obtaining approval from the competent authorities to put them on the market, as they are subject to continuous reviews by regulatory authorities, and this may lead to the imposition of restrictions on the product and/or its withdrawal from the market.
- The Company's inability to manufacture and market products at a reasonable cost or achieve satisfactory commercial results and investment returns after putting them on the market.
- Delay in obtaining or failure to obtain the required regulatory approvals in the countries in which the Company intends to market its products, and this will result in losses to the Company as a result of the development costs and expenses it incurred.

If any obstacles appear or any of the above-mentioned factors are realized, the Company may not be able to complete work on developing one or some of the products during the development process or in the advanced stages of it, and this will result in losses to the Company as a result of the development costs and expenses it incurred. This will have a material and negative impact on the Company's business, financial condition, results of operations and future prospects.

2-1-51 Risks related to lease contracts

It is worth noting the issuance of Council of Ministers Resolution No. (292) dated 16/05/1438H (corresponding to 13/02/2017G), which stipulates that a lease contract that is not registered on the electronic network is not considered a valid contract that produces administrative and judicial effects. The electronic network for rental services was launched in cooperation between the Ministries of Justice and the Ministries of Municipal and Rural Affairs and Housing on the date of 17/05/1439H (corresponding to 03/02/2018G), and a Ministry of Justice circular was issued approving the application of this to all contracts concluded after the date of 04/05/1440H. (corresponding to 10/01/2019G). As of the date of this Prospectus, the Company and its branches have concluded (10) ten lease contracts as lessees, including (1) one expired and not electronically documented contract related to renting residential apartments for employees (factory workers) (see Section No. (12-7) «**Properties owned and leased by the Company**» of this Prospectus). Such undocumented contracts may not be considered by Saudi courts, and therefore the Company may not be able to protect its rights in the event of any breach by the lessor of his contractual obligations. In the event that the Company is unable to maintain the continuity of all lease contracts related to carrying out its activities and renew them on the same current terms or on preferential or appropriate terms, or in the event that it is forced to vacate the leased properties without a suitable alternative, this will negatively and fundamentally affect the Company's business, operational results and future performance.

2-1-52 Risks related to the NUPCO's tender

The National Unified Procurement Company for Medical Supplies (NUPCO) is the regulating body for medical purchasing, storage and distribution services for medicines, devices and medical supplies in the Kingdom of Saudi Arabia, and is the Company's main client. Revenues from NUPCO represented 23.3%, 19.2%, and 18.2% of the Company's total revenues during the years 2020G, 2021G, and 2022G, respectively, and 14.6% during the first half of 2023G.

The Company has obtained two tenders with NUPCO (see Section No. (12-6-2) «**Summary of the Company's Essential Contracts**» of this Prospectus) as follows:

- NUPCO tender to secure medicines for the NPT0011/20 Wasfaty program, with a value of (24,015,620) twenty-four million and fifteen thousand six hundred and twenty Saudi riyals, and the Company has delivered medicines covering about 87% of the value of the agreement until the date of this Prospectus.
- NUPCO tender to secure major medicines for government agencies, NPT0015/20, with a value of (19,552,119) nineteen million five hundred and fifty-two thousand one hundred and nineteen Saudi riyals, and the Company has delivered medicines covering about 89% of the value of the agreement until the date of this Prospectus.

NUPCO's tender agreement for the provision of key medicines to government agencies, NPT0015/20, stipulates that NUPCO has the right to review the unit prices awarded at the time it deems appropriate according to what is new to them by the regulatory authorities and the local and global market situation. In the event that there is no agreement with the contracted supplier on a final price after review, NUPCO has the right to cancel the remaining quantities awarded. If NUPCO reviews and reduces the individual awarded prices, or if the remaining awarded quantities from the tender are cancelled, this will have a negative and material impact on the Company's results, financial performance, results of operations and future prospects.

2-1-53 Risks related to the agreement to develop commercial and marketing work and raise the level of service with Al-Dawaa Medical Services Company

Al-Dawaa Medical Services Company is considered one of the Company's three main clients. Avalon Pharma entered into a sales contract with Al-Dawaa Medical Services Company on 01/01/2023G with a value of (24,000,000) twenty-four million Saudi riyals. The contract period is (1) one calendar year (see section No. (12-6-2) «**Summary of the Company's Essential Contracts**» of this Prospectus).

In addition, Avalon Pharma entered into an agreement to develop commercial and marketing work and raise the level of service with Al-Dawaa Medical Services Company on 01/01/2021G. The agreement is valid and its duration is (1) one calendar year, which is renewed with the written approval of both parties, and is valid until the signing of a new agreement. The agreement has an unspecified value and sales are made through purchase orders. The agreement stipulates some fundamental obligations for the Company as follows:

1. If Al-Dawaa Medical Services Company is unable to dispose of the goods purchased from the Company, Al-Dawaa Medical Services Company has the right to terminate the agreement without arranging any legal consequences towards the Company.
2. The Company is committed to compensating Al-Dawaa Medical Services Company for medical services in the event of a decline in the Company's selling prices in the market.

In the event that Al-Dawaa Medical Services Company terminates the agreement with the Company due to its inability to sell the goods purchased from the Company, or in the event that Avalon Pharma compensates Al-Dawaa Medical Services Company for a decline in the Company's selling prices in the market due to any of the factors, such as a decrease in demand for some or all of the Company's products, or the presence of alternative products at competitive prices, or changes in customer requirements, or the Company's inability to keep pace with developments in the sector, or other things. The fulfillment of any of the above-mentioned obligations will have a negative and material impact on the Company's business, results and financial performance.

2-1-54 Risks related to the lack of signed contracts

The Company deals with one of its main distributors outside the Kingdom in Lebanon through an unsigned distribution and sales contract with both parties, where dealing is done through purchase orders. Accordingly, it may be difficult for the Company to ensure continued distribution and that business is not affected in the absence of a signed contract with this distributor, and the Company may not be able to meet the requirements of its customers in terms of continuing to sell the products and brands they are accustomed to. Revenues from the Company's sales to this distributor amounted to (383,029) three hundred and eighty-three thousand and twenty-nine Saudi riyals during the year 2020G, and (871,233) eight hundred and seventy-one thousand two hundred and thirty-three Saudi riyals during the year 2021G, and (221,451) two hundred and twenty-one thousand four hundred and fifty one Saudi riyals during the year 2022G, which constituted 1.7%, 3.2%, and 0.85% of the total revenues from the Company's distributors outside the Kingdom (export customers), respectively, and there were no transactions with the aforementioned distributor during the first half of the year 2023G.

In addition, a government competition was awarded on 05/09/1442H (corresponding to 17/04/2021G) with a value of (13,573,334) related to the provision of medical sterilizers and disinfectants products, despite the fact that the supply of products to the government entity began on 13/08/1443H (corresponding to 16/03/2022G) based on purchase orders. No agreement has been signed until the date of this Prospectus, and the value of the competition represents 8.3% of the total value of the Company's existing sales contracts.

The Company's dealings with its customers within a contractual framework guarantee the continuity of dealings and protect the Company from problems and legal issues if they occur. The Company's business and its relationship with its customers will be negatively affected if one of these parties terminates its business with the Company in the future or if it deals with other companies, which will have a negative and material impact on the Company's business, results of operations, financial condition and future prospects.

2-1-55 Risks related to not documenting employees' employment contracts electronically

In accordance with Ministerial Resolution No. (156309) dated 18/08/1440H (corresponding to 23/04/2019G), which stipulates the adoption of the launch of an electronic contract documentation program, which stipulates that establishments must adhere to documenting the contracts of contracted workers, and the decision stipulates that establishments which are not committed to documenting contracts, its workers are allowed to transfer to another employer without the approval of the current employer.

It is worth noting that the Company has undocumented employee contracts, as the Company's compliance rate, according to the Nitaqat report issued by the Qiwa platform for the month of August, was 93.32% for Avalon Pharma, 92.31% for the Company's branch - the Middle East for Distribution in Riyadh, and 33.33% for the Company's branch - the Middle East for Distribution in Jeddah. Accordingly, work is underway to document all employment contracts to avoid the fines indicated in the schedule of violations approved by the Minister of Human Resources and Social Development's decision No. (92768) dated 05/05/1443H (corresponding to 09/12/2021G). The financial fine resulting from failure to comply with documenting employee contracts for establishments that have more than 50 workers amount to (10,000) riyals for each worker, in addition to the possibility of losing their qualified employees, which will negatively and fundamentally affect the Company's financial condition, financial position, results of operations and future prospects.

2-1-56 Risks related to acquisitions, mergers or investment in the future

The Company may seek to undertake acquisitions, mergers or investment operations in the future that would complement or expand the scope of the Company's business. Some of these operations may be large in relation to the size of the Company's business and may require huge capital and/or additional support. Acquisitions, mergers or investments may involve various risks, including the Company's failure to accurately assess the value, strengths and weaknesses of the targeted acquisitions, mergers or investments, failure to integrate the acquired business or assets effectively, or failure to achieve the expected integration or recovery of acquisition costs for those businesses or assets. The Company may also incur unexpected costs or incur unanticipated liabilities and losses in connection with any business or asset it acquires, including the retention of key employees, potential legal obligations (including but not limited to contractual, financial, regulatory or environmental obligations) or other obligations. The liabilities and risks related to the acquired business, or the maintenance and integrity of procedures, controls and quality standards. If the Company undertakes acquisitions, mergers, or investments in the future, and if any of these risks materialize, this will have a negative and material impact on its financial performance, business results, and future prospects.

2-1-57 Risks related to the operations of the subsidiary «Avalon Pharma UK Holdings Limited» and its subsidiaries

Avalon Pharma has its wholly owned subsidiary in the United Kingdom, «**Avalon Pharma UK Holdings Limited.**» Its activities include manufacturing medicines, medicinal and non-medicinal creams, and ointments, and it in turn owns three subsidiaries: 1) Avalon Pharma Limited, which specializes in pharmaceutical products and 2) Avalon Cosmetics Limited, which specialized in cosmetics, and 3) Avalon Nutrition Limited, which specialized in health products and nutritional supplements (see Section No. (4-14) «**The Subsidiary**» of this Prospectus).

Avalon Pharma UK Holdings Limited was established during 2019G with the aim of investing in new emerging companies in the health sector, pharmaceutical industries, and nutritional or cosmetic supplements, such as Emulsion Cosmetics and Nuha Consultancy (see section No. (4-15) «**Investments**» of this Prospectus), The Company's investment plans were affected by the Corona pandemic, as it was unable to implement its investment plans after the onset of the pandemic. The Company is continuously studying and evaluating potential investment opportunities when they become available, which add to the Company's business portfolio and investments.

It is worth noting that during the month of March 2020G, the Company, through its subsidiary Avalon Cosmetics Limited, invested 15.0% in Nuha Consultancy Company, which works in the field of retailing cosmetics and beauty tools in specialized stores, and 15.0% in Emulsion Cosmetics Limited, which works in the field of retail sale of cosmetics and beauty tools in specialized stores. The two investee companies have faced problems related to liquidity, and work is underway to liquidate both investments in the coming months, as the value of the two investments reached (zero Saudi riyals) as of June 30, 2023G. Avalon Pharma UK Holdings Limited and its subsidiaries do not have any existing operations or activities as at the date of this Prospectus, and have not entered into any business contracts or commercial projects.

In the future, Avalon Pharma seeks to invest in the business of Avalon Pharma UK Holdings Limited and its subsidiaries in a way that will add to its business portfolio, and in the event that the Company is unable to implement its strategy and investment plans for those companies, or fails to accurately evaluate and study potential investment opportunities, or enter into investments or businesses that generate losses, this will have a negative and material impact on the Company's financial performance, business results, and plans and future prospects.

2-2 Risks related to the market and sector in which the Company operates

2-2-1 Risks related to the Kingdom's economic performance

The Company's expected future performance depends on a number of factors related to economic conditions in the Kingdom, which generally include inflation factors, domestic product growth, average per capita income, etc., in addition to global economic conditions, which in turn affect the Kingdom's economy. The Kingdom's macro and micro economy depends mainly on oil and oil industries, which still control a large share of the gross domestic product. Accordingly, any unfavorable fluctuations in oil prices will have a direct and fundamental impact on the growth plans of the Kingdom's economy in general and on government spending rates, which in turn will negatively affect the Company's financial performance and future prospects.

The continued growth of the Kingdom's economy also depends on several other factors, including continued population growth, government and private sector investments in infrastructure, the volume of foreign direct investment in the Kingdom and the development of financial markets in general. Therefore, any negative change in any of these factors, will have a significant impact on the economy and will therefore have a negative and material impact on the Company's business, financial results and future prospects.

2-2-2 Risks related to political and economic instability in the Middle East region

Many countries in the Middle East region are suffering from political and/or economic instability at the present time, which may affect the economy of the Kingdom of Saudi Arabia. The political, economic and social environment in this region is still subject to continuous developments, which gives investments there a great degree of uncertainty. Since the Company's assets, operations, and the majority of its customer base are currently in the Kingdom of Saudi Arabia, any unexpected changes in the political, economic, or other conditions in the Middle East region and other markets that the Company deals with will have a negative and material impact on the Kingdom's market, which will negatively and materially affect the Company's business, results of operations, financial condition and future prospects.

2-2-3 Risks related to the competitive environment

The Company works in the health field, and this field is characterized by high competition in the Kingdom and abroad, and therefore in the event of new competitors entering current markets, or the current or potential competitors offering competitive prices, conditions, or better solutions than those provided by the Company, or in the event of entry of some competitors in strategic alliances that enable them to provide high-quality products at a lower cost, the Company will not be able to compete with those companies. This may lead to a reduction in the Company's market share and a decrease in its revenues and rates of return, thus negatively affecting its profits, results of operations and financial condition.

2-2-4 Risks of growth opportunities

The Company's ability to develop its business depends on the level of competition in the market, the availability of material and human resources, the ability of its management team, legal systems, and others. There is no guarantee that it will maintain a continuous level of growth, as the Company may face difficulties in expanding its activity, developing its market share, and increasing its sales. Therefore, if the Company is unable to manage its growth positively, its ability to develop its activity and increase its market share, or maintain and increase it, may be affected. Its profits and enhanced returns to its shareholders, which means that the Company's financial condition will be adversely affected.

2-2-5 Risks related to non-compliance with current regulations and laws and/or the issuance of new regulations and laws

The Company, like other companies operating in the Kingdom of Saudi Arabia, is subject to many regulations and laws that may change or be updated by the competent authorities, such as the companies' law, the labor system, municipal and civil defense systems, the systems and regulations issued by the Capital Market Authority, the systems and regulations of the Ministry of Industry and Mineral Resources, and the regulations of the Food and Drug General Authority, and others. Also, new laws and regulations may be issued by the relevant official authorities from time to time, and accordingly the Company may be required to make amendments and changes to its operational, regulatory and manufacturing processes or to its products or production lines in accordance with the requirements imposed by those regulations. The Company's business will be negatively and materially affected in the event of any fundamental change to any of these systems or the introduction of additional systems that have a direct impact on the performance and profitability of the Company and its business operations.

2-2-6 Risks related to value added tax

On the second of Jumada al-Awwal 1438H, the Saudi Council of Ministers decided to approve the unified agreement for value-added tax for the countries of the Gulf Cooperation Council, which came into force as of 01/01/2018G. This system imposed a value-added tax of 5% on a number of products and services, according to what was stated in the system. The Kingdom's government decided to increase the value-added tax rate from 5% to 15%, starting from 01/07/2020G, a number of products and services people have been excluded (including basic foods and services related to health care and education). According to the guide to the provisions related to value-added tax in economic activity (version updated in September 2021), fines and penalties are imposed on taxable persons in connection with violating the value-added tax system provisions and conditions, in which case fines and penalties are charged to the Company in its capacity as the taxable person. In the event of any violation or incorrect application of the tax system by the Company's management.

If the exceptions are canceled in the future, or if the government raises the value-added tax rate again in the future or imposes other fees and taxes on companies or on all sectors operating in the Kingdom, including the health sector, it is expected that the Company will raise the fees for its products to reflect the increase in Value added tax. Therefore, if the Company is able to fully charge the value-added tax to its customers, the increase in the prices of its products may lead to a reduction in demand for them, which will negatively affect the Company's operations and profits. However, if the Company is unable to transfer the value of the added tax, in whole or in part, to the customer due to competitive or other factors, it will be forced to bear the value of the uncollected tax from customers, which will negatively affect the Company's profits and results of operations.

2-2-7 Risks related to fluctuations in supply and demand

The Company's sector, like other sectors, is affected by fluctuations in supply and demand in the market. Any fluctuations in economic conditions in the Kingdom and neighboring countries are considered a major factor for fluctuations in the levels of supply and demand in the Company's field of activity. Since the Company's clients are partly represented by government agencies and institutions, the Company's operations and business volume may be greatly affected if the country adopts certain policies, such as reducing expenses or reducing spending on government projects and tenders, especially those implemented by the Company. Failure to justify production levels to any sharp decline in demand in the future will affect the Company's productivity and sales levels, and thus will negatively and fundamentally affect the Company's performance, operations, and profitability.

2-2-8 Risks related to withdrawing licenses

The Company carries out its activities under the necessary licenses from the Ministry of Industry and Mineral Resources, the Food and Drug Authority, and other licensing bodies. The number of licenses, certificates, and regulatory and operational permits obtained by the Company is (35) thirty-five, all of which are valid, and work is underway to extract (4) four certificates from the Civil Defense and (2) two licenses from the municipality for some branches of the Company (see Section No. (12-5) «**Certificates, Approvals, and Licenses Obtained by the Company**» and Section No. (2-1-22) «**Risks related to non-issuance or non-renewal of licenses, permits and regulatory certificates**» of this Prospectus. The Company must adhere to the terms and conditions imposed by these authorities on companies that have this type of license. If the Company decides to make an amendment to any of its data, such as amending the trade name or activity category, it must submit a request to amend the licenses. If the Company violates any of the instructions and conditions of the licensing authorities, it will be subject to withdrawal of its licenses, and therefore it will not be able to continue its activity, which will have a negative and material impact on its business, results of operations and profitability.

2-2-9 Risks related to interest rate fluctuations

Interest rates due to the Company's financing parties may change depending on economic, political or regulatory variables, locally or globally, whether fixed or variable. Consequently, this will lead to an increase in the financing costs that the Company needs, which will have a negative impact on the Company's business, results of operations and financial performance.

2-2-10 Risks related to changing the mechanism for calculating Zakat and income tax

The Zakat, Tax and Customs Authority issued Circular No. 6768/16/1438 dated 05/03/1438H (corresponding to 04/12/2016G), which obligates Saudi companies listed on the financial market to calculate income and Zakat on the basis of the nationality of the shareholders and actual ownership among Saudi and Gulf citizens and others, according to what is stated in «**Tadawulaty System**» at the end of the year. Before issuing this circular, companies listed on the financial market were generally subject to paying Zakat or tax based on the ownership of their founders in accordance with their bylaws, and the effect of listed shares was not taken into account in determining the Zakat base. This circular was scheduled to be implemented in the year ending December 31, 2016 and subsequent years. However, the Zakat, Tax and Customs Authority issued its letter No. 12097/16/1438 dated 19/04/1438H (corresponding to 17/01/2017G), which requires postponing the implementation of the circular for the fiscal year ending on December 31, 2017G and the years that follow. Until the Zakat, Tax and Customs Authority issues its directives regarding the mechanisms and procedures for implementing this circular, the implementation of this circular, including the final requirements that must be met, is still under consideration. This is in addition to the rules that impose income tax on all non-Gulf residents who are shareholders in listed Saudi companies which apply the withholding tax to dividends paid to non-resident shareholders, regardless of their nationality. The Company did not evaluate the financial impact of this circular and take sufficient steps to ensure compliance with it, as it is a Saudi joint stock company wholly owned by Saudi shareholders, and if the financial impact of this circular when implemented is significant, or if the Company incurs additional costs to take the necessary steps to ensure compliance with it, this will negatively affect its business, results of operations, financial condition and future prospects.

2-2-11 Risks related to the imposition of new fees or taxes

Although the Company is not currently subject to any type of tax other than Sharia Zakat and value-added tax amounting to 15% of the fees for the services provided by the Company, other fees or taxes may be imposed on companies by the government in the future. Accordingly, if new taxes or fees are imposed on companies other than those currently applied, this will have a negative and material impact on the Company's financial performance, financial condition and future prospects.

2-2-12 Risks related to adapting to customer requirements

Avalon Pharma always seeks to maintain the satisfaction of its customers by providing its products and services within the highest quality standards and in line with changes in customer requirements. It relies heavily on its reputation and the strength of its product brands as it seeks to keep pace with changes in customer requirements on an ongoing basis. The Company's clients include companies, health institutions, and hospitals in the government sector, in addition to pharmacies, pharmacy chains, hospitals, clinics, and hypermarkets in the private sector. The Company's business may be negatively affected when the level of demand for its products decreases as a result of several factors, including the presence of side effects of health products, the availability of alternative products at lower prices, the safety and effectiveness of the products, the presence of new products with similar or additional advantages, or the Company's inability to properly study, understand, and keep up with customer requirements within a sufficient period of time or at an acceptable cost. Any of these factors will negatively affect the demand for the Company's products and the level of demand for them, which will have a negative and material impact on the Company's revenues, profitability, financial condition and future prospects.

2-2-13 Risks related to keeping pace with developments in the health sector

The health sector requires companies operating in it, especially companies that manufacture medicines and medical products, to work continuously to keep pace with developments and changes in the sector, and the Company's future success depends on its ability to follow these developments and adapt to them in order to maintain its position and strength in the market and meet customer requirements with the required efficiency and effectiveness. The health sector may face many changes and challenges that may include changes in regulations, laws, and strategies of regulators, the entry of new entities into the sector, changes in distribution methods with technological development and online purchasing, changes in customer requirements, technological updates in the pharmaceutical industry, and others.

There is no guarantee that the Company will be able to keep pace with or respond to these developments and changes in the sector, which will have a material negative impact on the Company's business, financial condition, results of operations and future prospects.

2-3 Risks related to the Offering Shares

2-3-1 Risks related to actual control by selling shareholders

The ownership of the selling shareholders after the offering will constitute 70% of the Company's capital shares (see Section No. (5-1) «**The Company's Ownership Structure Before and After the Offering**» of this Prospectus). Therefore, the selling shareholders will be able to influence all matters that require shareholder approval. Since the interests of the current owners may conflict with the interests of the new shareholders, the current owners will exercise this control in making important decisions such as electing members of the board of directors, appointing the Company's senior management, carrying out mergers and acquisitions, selling the assets, approving the Company's contracts and operations, and amending the Company's capital and the provisions of its bylaws, may have a negative and material impact on the Company's business, financial condition and operating results.

2-3-2 Risks related to the liquidity of the Offering Shares

The Company's shares have not previously been listed on any stock market, whether inside or outside the Kingdom of Saudi Arabia, prior to this offering, and there are no confirmations regarding the existence of an effective and continuous trading movement in the Company's shares after the end of the offering period and the listing of its shares. If the market is not an active and highly liquid market for trading the Company shares, the trading liquidity of the Company's shares and their price will be materially and adversely affected.

2-3-3 Risks related to the lack of a previous market for the Company's shares and the fluctuation of the share price

The Company's shares have never been listed on any stock market, whether inside or outside the Kingdom of Saudi Arabia, before this offering, and there is no confirmation that the offering price will be equal to the price at which the stock will be traded in the market after the offering. Investors may not be able to resell the shares they subscribed to at the same or higher price than the offering, as the share price after the offering may be affected by the Company's performance and results, or by other factors beyond the Company's control, including the general condition of the economy, or market liquidity, or change to government regulations, or others.

2-3-4 Risks related to non-distribution of dividends

The future distribution of profits depends on several factors, including, but not limited to, future profits, financial condition, capital requirements, the Company's distributable reserves, compliance with restrictions and requirements imposed by financing entities, general economic conditions, analysis of investment opportunities and needs and other relevant factors. The Board of Directors may consider these factors important from time to time and decide on the basis of them whether to submit any recommendation to the General Assembly of Shareholders to distribute dividends in the future. The Company does not provide any guarantee at all that the Board of Directors will recommend distributing dividends in the future, or that the Board of Directors' recommendation to distribute any dividends will be approved by shareholders at the General Assembly meetings, nor does the Company provide any guarantee regarding the amount that will be paid as dividends for any specific year (see Section No. (7) «**Dividend Policy**» of this Prospectus).

2-3-5 Risks related to selling or offering additional shares in the future

If the Company decides to increase its capital by issuing new shares in the future for the purpose of expanding the Company's activities, or to cover any severe shortage in working capital, or to extinguish losses, it is likely that this will negatively affect the share price in the market, or lead to a decline in the ownership percentage of shareholders in the Company if they do not subscribe to the new shares when they are issued.

Also, the Company may not be able to increase its capital at the time it needs, or in a way that serves its interest or the interest of shareholders, which will negatively affect the Company's prospects, results of operations, and financial condition.

2-3-6 Risks related to selling a large number of shares in the market after the Offering process

Existing shareholders will be subject to a lock-up period starting from the date the Company's shares begin trading on the financial market and continuing for a period of six (6) months, during which they will not be able to dispose of any of their shares they own. However, after the end of the lock-up period, there is no guarantee that large shareholders will not sell a large portion of their shares. If a large number of shares are sold in the market, or such a matter is expected to happen, this will negatively affect the Company's share price.

2-3-7 Risks related to the inability of non-qualified foreign investors to acquire shares directly

Under applicable laws and regulations, non-qualified foreign investors who wish to participate in the offering must enter into swap agreements with financial market institutions, pursuant to which they acquire an economic interest in the Offer Shares. Non-qualified foreign investors can trade these interests through financial market institutions that will have legal ownership of the shares. Accordingly, non-qualified foreign investors will not have legal ownership of the shares and will not be able to vote on the shares in which they have an economic interest.

2-3-8 Risks related to fluctuations in the price of shares after the Offering

Several factors were relied upon to determine the Offering price, which include the Company's historical performance and the results of its operations, the sector and markets in which it operates, the Company's operations and business model, future prospects of its business and financial performance, the sector in which it operates, the markets in which it competes, and the evaluation of the Company's management, operations and financial results. The Offering price may not be equal to the trading price of the shares after the Offering is completed and its shares are listed on the market. The market price of the Company's shares may not be stable after the Offering. Investors may be unable to resell the Offering Shares at the Offering price or at a higher price, or they may be unable to sell the shares at all.

The Company's share price may not be stable after the Offering and may be exposed to severe fluctuations in price and volume, leading to a decline in the value of the shares and a decrease in trading volume. The share price may be negatively affected by several factors, including the general situation of the Kingdom's economy, stock market conditions, the conditions of the sector in which the Company operates, changes in rules and regulations, the outbreak of wars, natural disasters, terrorist acts, or the spread of epidemics. The stock price may also be negatively affected by several factors related to the Company, including the Company's business performance, its weak financial results or losses, its inability to implement its strategy and future plans, the entry of new competitors into the market, changes in the Company's management and employees, or the existence of strategic alliances with others by competitors in the sector. Any of these factors will negatively affect the Company's business, financial condition and future prospects, and thus the performance of the share price in the market and the expected returns to investors and the value of their investments in the Company's shares.



03

Overview of the Market and Sector

3- Overview of the Market and Sector

3-1 Introduction

Avalon Pharma has commissioned Euromonitor International Limited «**Euromonitor International**», an independent provider of strategic market research, to prepare a market study on the pharmaceuticals and medical supplements sector, covering Dermatologicals, dermacosmetics, Respiratory, Neurological, Gastro-Intestinal, Muscular Skeletal, and Diabetes in Saudi Arabia.

The data below are based on the independent market study prepared by Euromonitor International, which has given but not withdrawn its written consent to publish the results of the market study in the Prospectus as of the date of its publication. Euromonitor International, nor any of its employees or affiliated persons, has any shares or interest whatsoever in the Company or any of its subsidiaries.

The estimates and forecasts contained in this market study section have been prepared on the basis of a market research study prepared by Euromonitor International, which includes research estimates based on various official published sources such as Euromonitor International's «**Passport**» database, statistics, business opinion surveys and expert interviews conducted by Euromonitor with a sample of manufacturers of pharmaceutical products in both major and small markets.

Therefore, Euromonitor International believes that it has used appropriate information sources and methodologies for this study, but due to the nature of the techniques and methodologies used in market research, it neither guarantees nor represents the accuracy or completeness of this information. References to Euromonitor International should not be considered as an opinion of Euromonitor International as to the value of any security or the correctness of a decision to invest in the Company.

Euromonitor International employees have no reason to believe that the information contained in the Market Study section is false or misleading or that any material fact has been omitted that would make such information false or misleading. The information prepared by Euromonitor International and contained in this market study section has not been independently verified by the Company or any other party and no representations are made as to its accuracy, and the information should not be relied upon in making or refraining from making any investment decision.

3-1-1 Research methodology

All research data, analyzes and estimates in this section are based on research work conducted between February and April 2023 including: (i) desk research to collect publicly available secondary data sources, including statistics on macroeconomic indicators and demographics from entities such as General Authority for Statistics (GaStat), Central Bank of Saudi Arabia, Euromonitor International's internal «**Passport**» database (available statistics and in-depth reports on companies, industries and countries around the world), commercial reports on companies and third party reports; (ii) trade survey analysis of opinions and views from a sample of leading pharmaceutical companies; (iii) Reviews and analyzes of all sources to build industry consensus on market size and historical trends.

It is noteworthy that Avalon Pharma provided its audited sales data for the period from 2018G to 2022G, which was used to estimate its market shares. Avalon Pharma's share across key markets is calculated using audited company sales data on total market size as estimated by Euromonitor International as part of this market study section.

3-1-2 Basis and assumptions of forecasting

Euromonitor International based its report on the following assumptions: (i) the social, economic and political environment is expected to remain stable in the Kingdom of Saudi Arabia during 2022-2027G; (ii) there will be no sudden external fundamental changes, such as financial crises affecting supply and demand in the sector during the same period; (iii) The main drivers affecting growth/demand during the period 2018G-2022G and the period 2022G-2027G, and include the growing target population, inflation, GDP, disposable income, public and private spending within the public health care sector and others, and the impact of Covid-19 has been taken into account as part of the estimates for 2020G and 2021G, as applicable. All conversions from US dollars to Saudi riyals are based on the exchange rate of 1 US dollar = 3.75 Saudi riyals.

3-2 Macroeconomic and demographic overview

The Kingdom of Saudi Arabia is the largest economy in the Middle East and North Africa (MENA) in 2022, with a GDP of SAR4.1 trillion (USD1.1 trillion)¹. During 2018-22 adoption of economic reforms to encourage private sector engagement, and higher crude oil prices partially supported expansion of total GDP by 21.6% from 2021 to 2022.² This growth follows a brief period of disruptions noticed in the construction, retail, and hospitality Industries partially triggered by the COVID-19 pandemic and the collapse of oil prices in 2020.

Saudi Arabia established the National Infrastructure Fund in October 2021 in order to invest SAR183.8 billion (USD49.1 billion) in a range of infrastructure projects by the end of the decade. The fund was aimed at financing a number of privatised transportation utilities, energy, communication, education, and digital infrastructure projects. In addition, as part of the Vision 2030 strategy, the country intends to inject SAR10.4 trillion (USD2.8 trillion) into the domestic economy over the next decade, with investments coming from many sources, including the Public Investment Fund (PIF), prominent Saudi firms, and foreign investors. Further to this, the solid rebound in oil prices and economic diversification activities, such as the expansion of the tourism industry to attract more tourists, privatization of government owned assets, government and foreign investment contributed to a robust return in real GDP annual growth of 8.70% over the period of 2021-22.

Saudi Arabia has announced plans to invest SAR227.7 billion (USD60.7 billion) in healthcare infrastructure in 2021, with private sector participation increasing from 40% to 65%. Prior to 2025, infrastructure will likely receive between 40% and 50% of the total expenditure, with the focus shifting to digital solutions, medical consumables, and implants.³ Consumer expenditure on health in the Kingdom maintained an uptrend over the historical period, achieving a growth of 5.8% in between 2021 and 2022 (SAR22 billion, USD5.9 billion)⁴. This trend is expected to continue into the forecast period, with a CAGR of 4.3%, translating to SAR26.4 billion (USD7.0 billion) by 2027. The spend on healthcare is rising and more inclined towards ensuring healthy lifestyle by increasing immunity, improving vitamin levels, reducing diabetes and other ailments. This was evident, specifically in higher sale of vitamin that saw a hike in demand during 2020-21 by 15.8% to reach SAR581.4 million (USD155 million) in 2021.

In September 2016, the Kingdom implemented mandatory health insurance. All private employers must provide expatriate workers' dependents with health insurance. As an outcome of this, mandated health insurance has helped increase patient traffic from public to private institutions, to an extent aiding the Kingdom's broader privatisation goals. The Health Insurance programme in Saudi Arabia has been instrumental in reducing out-of-pocket health expenditures and increasing the proportion of individuals with private health insurance. With 27 insurance firms serving more than 11 million beneficiaries, the Health Insurance programme has increased access to healthcare facilities.

In Saudi Arabia, inflation declined to 2.47% in 2022, down from 3.07% in 2021, with the VAT increase in 2020 (from 5% to 15%) being one of the major contributors.⁵ During 2020, the Kingdom's tourism, food, energy, and other economic sectors were significantly impacted. Following this, in 2021 the disruption caused by the war led major corporations to stockpile goods. Global supply chain and operations were disrupted, and as an importer of vital food products, medications, and other consumables, the Kingdom saw a significant price hike. As a result of inflation, the cost of medicinal items increased due to the increased costs of ingredients imported from abroad. In 2022, Saudi Arabia issued a royal decree demanding the allocation of SAR20 billion (USD5.3 billion) to counteract rising global costs. Half of these funds will be allocated to recipients of social insurance and the Citizen Account Programme⁶. In Saudi Arabia, the inflation rate is projected to decline during the following five years, reaching 2.02% in 2027. Inflationary pressures are likely to lessen during the forecast period as supply chain bottlenecks ease and demand pressures on goods decline, while consumer spending shifts towards services.

The economic outlook for the Kingdom over the projected period 2023-27 indicates that the total GDP would increase by a CAGR of 3.8% to reach SAR5.0 trillion (USD1.3 trillion) by 2027, driven by rising domestic consumption, state investment, and increase in value of exports.⁷ It is projected that a budget surplus resulting from rising oil earnings will increase government revenues, strengthen the country's financial status, and buffer it from significant future fluctuations. It is anticipated that disposable income per capita will increase at a CAGR of 3.7% during this period to reach SAR50,388 (USD13,436) in 2027, accompanied with a gradual reduction of inflation rate that will encourage consumer expenditure⁸. On the back of strong projected macroeconomic development, the healthcare sector in Saudi Arabia is poised to continue its robust growth over 2023-27, supported also by strong public funding, rising economic growth, and expanding healthcare demand as a result of rising population and increasing coverage of mandatory healthcare insurance.

1 Euromonitor International (2022) – Passport database

2 General Authority for Statistics (2022), quarterly GDP and growth rates at current and constant prices

3 Kingdom of Saudi Arabia, Vision 2030

4 Euromonitor International: Analysis and forecasts of economies and consumers

5 Euromonitor International: analysis and forecasts of economies and consumers; The World Bank

6 Press release by the Government of the Kingdom of Saudi Arabia, 2022G

7 Euromonitor International (2022) – Passport database

Table No. (26): Key macroeconomic indicators in Saudi Arabia – 2018, 2020, 2022, 2023 and 2027

Category	Data Type	2018	2020	2022	2023F	2027F	CAGR % 2018-22	CAGR % 2023-27
Total GDP	SAR billion	3,17	2,74	4,156	4,026	5,006	7.0%	3.8%
GDP per capita	SAR	105,135	87,268	129,154	122,700	141,412	5.3%	1.8%
Real GDP Growth	%	2.80	(4.30)	8.70	2.7	2.90	-	-
Oil Activities	Share of GDP	34.9	22.9	40.8	-	-	-	-
Non-oil Activities	Share of GDP	47.0	55.2	44.2	-	-	-	-
Government Activities	Share of GDP	18.1	21.9	15.0	-	-	-	-
Disposable Income per Capita	SAR	39,741	38,496	45,954	45,390	50,388	3.7%	1.9%
Inflation	%	2.46	3.44	2.47	249	2.02	-	-
Unemployment	%	6.03	7.65	5.84	5.57	5.36	-	-
Total Consumer Expenditure	SAR billion	1,167.0	1,185.8	1,434.6	1,463.2	1,768.2	5.3%	4.8%
Rate of Urbanization	%	83.72	84.11	84.48	84.67	85.38	-	-

Source: Euromonitor International estimates from United Nations (UN), World Bank (WB), International Monetary Fund (IMF), General Authority for Statistics (GaSTAT), Ministry of Education, Ministry of Health, SAMA and Euromonitor's Economies and Consumers database.

Saudi Arabia's total population increased at a CAGR of 1.6% between 2018 and 2022 to reach 32.2 million by the end of the period. In 2022, Saudi Arabian nationals totalled 18.9 million, representing 58.4% of the country's total population, up from 56.6% in 2018.⁹ By 2027, the country's total population is projected to reach 35.4 million, with the local population accounting for 58.9% of the total population. Giga and mega-infrastructure projects that attract both blue- and white-collar employees contribute to the increase in population, increasing the expat population, which accounted for 41.6% of the total population in 2022.¹⁰

Saudi's demographic profile is predominantly young, with 97.3% of the population below 65 years of age in 2022.¹¹ The 19-64 years age group accounted for approximately 67.2% of the population and was the primary driver of the country's demographic expansion. As part of Saudi Arabia government and unified national platform it boosts women empowerment to benefit society, leading to increased participation of women in the workforce, particularly in the hospitality and healthcare sectors, is increasing household income and fuelling economic expansion. On the other side, the proportion of senior citizens (65+) is rapidly expanding and will account for 4.0% of the total population by 2027, up from 2.7% in 2022. In addition to rising rates of obesity and diabetic prevalence among the general population, the ageing of the population is a major factor driving up consumer spending on healthcare.

In 2022, the Kingdom had one of the highest prevalence of lifestyle diseases in the world, with 16.2% of the over 20 years age group suffering from diabetes and 41% suffering from obesity. Focusing on high-risk groups, a nationwide diabetes screening and risk factor modification programme has been established at the community level. The Saudi government has initiated initiatives like the Quality-of-Life Program 2020, which emphasises physical fitness and preventive treatment. The Kingdom intends to lower the prevalence of obesity and diabetes by 3% and 10%, respectively, by 2030. To achieve this, the government wants to invest between 25% and 35% of the total budget for healthcare to diabetes, obesity, and cardiovascular diseases. The demand for preventative care screening for the management of chronic diseases presents expansion opportunities for the healthcare and pharmaceutical industries. In addition, the proportion of elderly residents (age 65+) is projected to increase by CAGR 6.2% between 2023-27 to reach 4.0% in 2027. A rapidly ageing population is predicted to increase the demand for chronic care, particularly for Osteoporosis, Alzheimer's, Dementia, Parkinson's, and Multiple Sclerosis.¹²

Greater awareness of the lifestyle-related diseases, need to increase immunity, and maintain overall health is driving the rise of the healthcare industry in the Kingdom of Saudi Arabia. It is anticipated that these variables, together with an ongoing increase in important demographic contributors (such as the prevalence of diabetes, obesity, and cardiovascular illnesses), would contribute to an increase in consumer spending on healthcare and medical products.

8 Euromonitor International (2022) – Passport database

9 Euromonitor International (2022) – Passport database

10 Euromonitor International (2022) – Passport database

11 Euromonitor International (2022) – Passport database

12 Future Trends in Aging Demography Report, Kenneth M. Langa, www.ncbi.nlm.nih.gov/books/NBK513075/

Table No. (27): Key demographic indicators in Saudi Arabia – 2018, 2020, 2022, 2023 and 2027

Category	Data Type	2018	2020	2022	2023F	2027F	CAGR % 2018-22	CAGR % 2023-27
Total Population	'000	30,196	31,553	32,175	32,813	35,400	1.6%	1.9%
Population Aged 0-18 Years	'000	9,463	9,626	9,674	9,739	9,839	0.6%	0.3%
Population Aged 19-64 Years	'000	20,057	21,200	21,639	22,124	24,140	1.9%	2.2%
Population Aged 65 Years and Above	'000	676	727	862	950	1,421	6.2%	10.5%
Male Population	'000	18,581	19,279	19,679	20,069	21,660	1.4%	1.9%
Female Population	'000	11,615	12,274	12,497	12,744	13,739	1.8%	1.9%
Saudi Population	'000	17,086	17,979	18,792	19,205	20,859	2.4%	2.1%
Expatriate Population	'000	13,111	13,574	13,383	13,608	14,541	0.5%	1.7%
Number of Households	'000	7,840	8,071	8,175	8,301	8,779	1.1%	1.4%
Average Household Size	Person	3.73	3.67	3.70	3.70	3.71	-	-
Prevalence of Diabetes in the Population	% of Adult Population	16.80	15.90	16.20	16.40	16.90	-	-
Prevalence of Obesity in Population	% of Adult Population	38.4	39.8	41.0	41.5	43.2	-	-

Source:Euromonitor International estimates from UN, WB, GasTAT, and Euromonitor's Economies and Consumers database.

3-3 Healthcare sector overview

The public healthcare system in Saudi Arabia is managed and financed by the government through the Ministry of Health (MOH) provides comprehensive healthcare for all its residents via an integrated network of healthcare services across all regions of the Kingdom. In 2022, Saudi Arabia allocated SAR138 billion (USD36.8 billion) on healthcare and social development, or 14.4% of its budget.¹³ Further, public expenditure on healthcare is expected to grow by 37% from 2022 to 2023. Additionally, to the allocated budget, under Vision 2030, the Saudi Arabian government plans to invest approximately SAR295 billion (USD78.7 billion) towards the development of the nation's healthcare infrastructure. In addition to public spending to improve and advance the healthcare sector, the government also aims to boost private sector participation in the sector by encouraging investments. It is expected that the role of private sector will expand its total investment in the healthcare sector from 40% to 65% by 2030, by privatizing 290 hospitals and 2,300 primary health care facilities.¹⁴ Private investors are anticipated to continue constructing cutting-edge specialised centres throughout the Kingdom, especially in Riyadh and Makkah. As a result, increasing privatisation is likely to continue to benefit domestic healthcare. New projects include the SAR336 million (USD89.6 million), Tadawul-listed Middle East Healthcare Co's 150-bed Saudi German Hospital Dammam and the extension of Abu Dhabi-based NMC Health's geographic reach throughout the Kingdom.¹⁵

Private hospitals have a role to play in democratising specialist healthcare services in the Kingdom by building centres of excellence for both Saudi natives and medical tourists, given ongoing government initiatives. Growing privatisation is also expected to support technological upgradation of the healthcare system in the country. In 2021, three of the six newly opened hospitals, with state-of-the-art technologies were financed by private investors, for a total of 167 private hospitals and 19,427 hospital beds (representing 33% of the total hospitals and 25% of the total hospital beds in the country).¹⁶

The Health Insurance program in the Kingdom has been essential in expanding access to high-quality care for Saudi citizens. All private companies, including corporations, small, medium, and micro businesses, are required to provide expatriate workers and their dependents with health insurance. Visitors and expats are obliged to purchase private health insurance during their stay, although Saudi residents have access to free public insurance. This mandatory health insurance shifted patient traffic from public to private institutions, further supporting the Kingdom's privatisation objectives.

As part of Saudi Vision 2030 and governmental efforts to develop a healthcare system that contributes to supporting patients and providing healthcare without the need to go far. The model of care is expected to result in the spread of specialised hospitals throughout the Kingdom, as each of the designated clusters (an integrated network of health care providers under one administrative structure, serving 1 million people) will require primary care centres, general hospitals, and specialised services to serve approximately 200,000 patients.¹⁷

In 2016, MoH announced the Privatisation Vision Realisation Program (VRP), a comprehensive strategy for the privatisation of government assets across multiple sectors, including healthcare, transportation, education, and municipal services.¹⁸ This was carried out in order to increase efficiency across the ecosystem. In 2017, Saudi Arabia's National Centre for Privatisation & Public-private partnerships (PPP) became an official facilitator for the privatisation of all government sectors, providing Privatisation Supervisory Committees and Execution Teams with privatisation processes, legal and regulatory expertise.¹⁹

In 2022, the VRP was updated to include specific targets through 2025, with total investments from PPPs anticipated to total SAR62 billion (USD16.5 billion) across all sectors. In response, the Kingdom recently established the «**Privatization Law**» to establish a comprehensive framework for regulating PPPs, which were previously overseen by government tenders and procurement law.

The new law also aspires to boost private sector participation in a wide range of government projects, including infrastructure and public services, and to encourage investment. In healthcare, the Privatisation VRP prioritises PPPs as the major approach for privatising the industry, with 9 approved initiatives and an additional 23 under revisions. The strategy calls for the development of primary healthcare, extended care (rehabilitation and long-term care), radiography, and laboratory technology.

The shift to a comprehensive and increasingly privatised healthcare system is likely to increase demand for both patented and generic medications. Medicines for the treatment of diabetes, cardiovascular disease, antibiotics, and cancer have the most promising future.

13 Ministry of Finance, Kingdom of Saudi Arabia, 2022G

14 Kingdom of Saudi Arabia, Vision 2030

15 Euromonitor analysis based on primary and secondary research

16 Saudi Ministry of Health

17 Kingdom of Saudi Arabia, Vision 2030

18 Saudi Ministry of Health

19 Saudi Ministry of Health

Under Vision 2030, which also includes the Health Sector Transformation Program as part of its Vision Realisation Programs, Saudi Arabia prioritises local production, the transfer of knowledge, the performance of clinical trials locally, and the training of the Saudi labour force, implying that the government prefers that businesses invest in Saudi Arabia as opposed to exporting to it.

Table No. (28): Key healthcare indicators in Saudi Arabia – 2018, 2020, 2022, 2023 and 2027

Category	Data Type	2018	2020	2022	2023F	2027F	CAGR % 2018-22	CAGR % 2023-27
Public Expenditure on Healthcare	SAR billion	156.0	175.0	138.0	189.0	-	(3.0%)	-
Consumer Expenditure on Health Goods and Medical Services*	SAR billion	18.07	18.27	21.99	22.29	26.39	5.0%	4.3%
Consumer Expenditure on Health Goods and Medical Services	% of total consumer expenditure	1.55%	1.54%	1.53%	1.52%	1.49%	-	-
Consumer Expenditure per Capita on Health Goods and Medical Services	SAR	516	507	604	603	677	4.0%	2.9%
Consumer Expenditure per Household on Health Goods and Medical Services	SAR	2,866	2,815	3,346	3,340	3,739	3.9%	2.9%
Life Expectancy	Years	77.2	76.2	77.9	78.1	78.8	-	-

Source: Euromonitor International estimates from Ministry of Health, Euromonitor's Economies and Consumers database.

* Expenditure on pharmaceutical products, medical appliances and equipment, outpatient, and hospital services. This division also includes health services purchased from school and university health centers.

In terms of regulatory landscape, The Ministry of Health is the country's primary regulator of all healthcare-related activities and services and is responsible for clarifying patients' rights and obligations and coordinating with other competent authorities to provide healthcare services.²⁰ The Saudi Food and Drug Authority (SFDA), which oversees and manages the distribution of pharmaceuticals and food products in the country, and The National Unified Company for Medical Supplies (NUPCO), which is responsible for the centralization of government procurement of medical equipment, pharmaceuticals, and other supplies for all public healthcare facilities in the country, are also important public bodies in the Saudi Arabian Healthcare system.

20 Saudi Ministry of Health

3-4 Medicine and medicinal supplements industry overview

In 2022, the total medicine and medical supplements industry was valued at SAR34.5 billion (USD9.2 billion) and grew at a CAGR of 7.1% from 2018 to 2022.²¹ This includes Dermatology, Respiratory, Dermacosmetics and Hygiene products (hand sanitizers) and oral care– which grew by 7.3% during 2018-2022 to reach SAR7.3 billion (USD1.9 billion) by 2022. These categories contributed 21.2% of the overall medicine and medicinal supplements sector sized at SAR34.5 billion as of 2022. Developments within the overall medicine and medical supplements industry is largely influenced by demographic shifts (i.e., more ageing population), rise in non-communicable diseases, expansion of healthcare sector, rising advancements (both in treating patients via procedures and/or medicines), international collaborations and improving private and public sector investment inflows.

Since 2018, prescription products dominate the total medicine and medical supplements industry, with more than 60% of medicines (originator drugs) imported by multinational corporations and protected by patent regulations.²² Key local players continue to concentrate primarily on the production of Over the Counter (OTC) drugs, whereas imported drugs cater to more specific health conditions.

Due to Saudi Arabia's reliance on imported medicines and medicinal supplements to meet their healthcare demand, the majority of medicine and medical supplements sales to consumers in the country are conducted through large national distributors such as Tamer Group and Al Naghi Brothers. These distributors leverage their local know-how and extensive distribution network, which includes implemented supply systems installed throughout the country's principal hospitals and pharmacies to ensure products are well-stocked.

The continuous expansion of regulatory policies requiring private companies in the Kingdom to include family members of all their employees in the health insurance policies was the primary factor in reducing public expenditure on medicine and medical supplements, resulting in health insurance revenues growing at an annual average rate of 5.7% over 2019-2021 to reach SAR57.0 billion (USD15.2 billion) in 2021 with an 83% coverage rate.²³ Growth within the medicine and medical supplements sector is also driven by high coverage of health insurance (83% of total population has insurance coverage in KSA as of 2021) coupled with rising disposable income (contributed also by increasing female participation in employment) and the need to maintain holistic health, including skin care for the long run. This has led to demand for certain categories within the industry such as dermatology that encouraged key players like Avalon to introduce more targeted products to respond to consumer and market demands.

In order to remain self-sufficient and more sustainable with local production and reduce dependency on imports, the government has been quite active in sponsoring locally produced drugs with price protection programs and offering incentives to doctors and pharmacists to recommend local brands to consumers. This is also influenced by Saudi Vision 2030 initiatives that encouraged international players to form alliances with local players or establish local production sites. Examples of this include the 50/50 partnership between Cigalah Group and Julphar. Acino, a Swiss provider of high-quality medicine and medical supplements products and services, has also entered into a strategic agreement with Batterjee Pharma of Saudi Arabia in 2022 that will match with the goals of the Kingdom's Health Sector Reform Strateg.²⁴

The offline channel, such as pharmacies and chemists, remains the major channel for medicine and medicinal supplements in the Kingdom, as consumers prefer to receive advice from pharmacists when purchasing medicines. During the pandemic, many Saudis began using more of e-commerce channel for the first time due to the imposition of quarantines and curfews.²⁵ Store-based health and beauty specialist merchants with their own e-commerce websites, such as independent chemists/pharmacies chains Nahdi and Al Dawaa and chained drugstores/prepharmacies such as Whites, have gained the most from the scenario.²⁶ Consumers also have the option of purchasing OTC analgesics from third-party delivery applications like Mrsool and Careem Now for even faster service and delivery. Yet, chemists/pharmacies are anticipated to continue dominating the Saudi Arabian distribution environment in the coming years due their vast presence, holistic omnichannel presence through offline and online presence for seamless shopping experience, continued strong penetration across the Kingdom and increasing consumers preference to seek for medical advice from pharmacists when purchasing medication. Pharmacies like Al Nahdi are repositioning themselves as health and wellness centres to more effectively support Saudi consumers seeking medication and advice.²⁷ This may also serve as comprehensive all under one roof 360 degrees of health services; a one stop shop for convenient healthcare.

21 Euromonitor analysis based on primary and secondary research

22 Euromonitor analysis based on primary and secondary research

23 Euromonitor analysis based on primary and secondary research

24 Euromonitor analysis based on primary and secondary research

25 Euromonitor analysis based on primary and secondary research

26 Euromonitor analysis based on primary and secondary research

27 Euromonitor analysis based on primary and secondary research

The total medicine and medical supplements sector are anticipated to increase at a CAGR of 5% to reach SAR44 billion (USD11.7 billion) during 2022-2027. Dermatology, Respiratory, Dermacosmetics and Hygiene products (hand sanitizers) and oral care – are expected to grow by 6.2% during 2022-2027 to reach SAR9.9 billion (USD2.6 billion) by 2027 accounting for 22.5% of the overall medicine and medicinal supplements sector sized at SAR44 billion as of 2027. The growth of the overall medicine and medical supplements market is supported by robust macroeconomic conditions, high government encouragement and spending, an increase in mandatory health insurance coverage, and a growing push for localization.

Table No. (29): Market size of the medicine and medicinal supplements in Saudi Arabia, 2018-2027

Category	Data Type	2018	2020	2022	2023F	2027F	CAGR % 2018-22	CAGR % 2023-27
Total Market Size of Medicine and Medical Supplements	SAR billion	26,212	27,905	34,538	36,473	44,025	7.1%	5.0%
Total market size of Dermatology, Respiratory, Dermacosmetics and Hygiene products (hand sanitizers) and oral care	SAR billion	5,519	6,436	7,312	7,822	9,899	7.3%	6.2%

Source: Euromonitor International calculations based on primary and secondary research

Note: The sales values provided in this report are based on retail selling price. Estimates may differ in other published sources due to several factors such as mark-ups applied to manufacturing prices, institutional sales, different categorization of products, exclusion of discounts, free items, taxes applied, product delays or stock retention.

3-4-1 Key categories

3-4-1-1 Dermatologicals market overview and competitive landscape

The total market for dermatologicals increased by CAGR of 8.9% between 2018 and 2022, reaching SAR2.5 billion (USD0.7 billion) in 2022,²⁸ primarily due to factors such as increased disposable income, which allowed for increased spending on pharmaceutical products, skin products, general skin health, all-weather skin care, and skin disease awareness (including early detection of skin cancer). Topical corticosteroids, anti-acne treatments, hair loss treatments, wound healing agents, emollients and protectants (together contributing approximately 61% of the total dermatological medicines and products) are expanding the range of dermatological medicines and products as irritated skin and hair loss problems become more prevalent. By 2027G, total sales of the pharmaceutical and skin products category are expected to reach SAR 3.5 billion (US\$0.93 billion), with a CAGR of 7.1% between 2022-2027G. This was primarily attributable to factors such as an increase in disposable income, which allowed for an increase in expenditure on dermatological products and general skin health, weather conditions, skin disease awareness (including early detection of skin cancer). Subcategories such as topical corticosteroids, anti-acne, hair loss treatments, wound healing agents and emollients & protectives (collectively contributing ~61% of overall dermatologicals) are contributing to the expansion of dermatologicals as irritated skin and hair loss problems become more widespread. In 2027, total dermatologicals category sales are anticipated to reach SAR3.5 billion (USD0.93 billion), at 7.1% CAGR between 2022-2027. The need for specialised dermatological products to treat conditions including hair loss, eczema, and skin irritations will be the primary driver of growth in this industry. The development of novel products will be essential to effectively treat a variety of different medical conditions and target specific health issues. A greater want by the population towards maintaining skin and hair for the long run as part of holistic health and wellness will also influence growth.

²⁷ Euromonitor analysis based on primary and secondary research

²⁸ Euromonitor analysis based on primary and secondary research

Increased sales of dermatologicals through pharmacy stores as well as online platforms during the pandemic positively impacted the category's demand over 2018-22. The category also benefitted from increasing diversification of pharmacy retailers' revenues through non-medicine and medicinal supplements categories, especially skin care and other beauty and personal care products. In 2022, through its own label range of medicated skin care products, leading retailer Al Nahdi Medical Services Co advertised a variety of non-prescription standard dermatology treatment products to price-conscious consumers. In this context, it is worth mentioning that the above trend has been gaining traction despite higher penetration of prescription drugs (around 57% of total dermatologicals sold) compared to OTC. The emergence of advanced treatments for dermatological diseases like the "immune dermatological diseases class" also contributed to greater penetration of prescription drugs in this category.²⁹ In the class of immunological dermatological diseases, hair loss and preserving healthy hair are considered essential among Saudis. This is because of climatic circumstances such as heat and sand which exposes the residents to skin irritations and eczema and drives the demand for specialized dermatological prescription products.

In Saudi Arabia, the market for dermatologicals is highly fragmented, with the top five competitors accounting for about 30.4% of total value sales in 2022,³⁰ Imported items contribute for the majority of sales of dermatology medicines and medicinal supplements, as shown by three of the top five ranked players in 2022 being imported. Avalon Pharma held about 8.9% market share in dermatology medicines in Saudi Arabia in 2022, Abbvie Inc (6.7%), followed by local producer Jamjoom Pharmaceuticals (5.4%), Bayer AG (5.0%), and LEO Pharma A/S (4.3%).³¹

Avalon Pharma, with 8.9% of the market share, is the leading player in the dermatological category. The company is keen to expand and has the necessary resources in place to gain more market share in the dermatological space. Their best-selling product, Avogain, is an effective and safe treatment for male and female hormonal alopecia (net revenue grew by 81% between 2020 and 2021). This topical solution containing 2% minoxidil stimulates hair growth and prevents hair loss.³²

Table No. (30): Market size of the dermatologicals category in Saudi Arabia, 2018-2027

Category	Data Type	2018	2020	2022	2023F	2027F	CAGR % 2018-22	CAGR % 2023-27
Dermatologicals	SAR million	1,775	2,043	2,496	2,693	3,512	8.9%	7.1%

Source: Euromonitor International calculations based on primary and secondary research

Note: The sales values provided in this report are based on retail selling price. Estimates may differ in other published sources due to several factors such as mark-ups applied to manufacturing prices, institutional sales, different categorization of products, exclusion of discounts, free items, taxes applied, product delays or stock retention.

Table No. (31): Ranking and Market Share of key players in the dermatologicals category in Saudi Arabia 2022

Company	Rank	Market share (value)
Avalon Pharma	1	8.9%
Abbvie Inc	2	6.7%
Jamjoom Pharma	3	5.4%
Bayer Ag	4	5.0%
Leo Pharma A/S	5	4.3%
Others	-	69.6%

Source: Euromonitor International calculations based on primary and secondary research, all shares are calculated at Retail Selling Price (RSP)

29 Euromonitor analysis based on primary and secondary research

30 Euromonitor analysis based on primary and secondary research

31 Euromonitor analysis based on primary and secondary research

32 Euromonitor analysis based on primary and secondary research

Dermocosmetics market overview

The total market for Dermocosmetics increased by CAGR of 2.2% between 2018 and 2022, reaching SAR237 million (USD63.2 million) in 2022.³³ Facial care accounts for the largest market size considering our current scope. Awareness and demand for Dermocosmetics among consumers is mostly influenced by the recommendations of dermatologists and retail pharmacists. This coupled with improving women’s participation in labour force, not only for women empowerment but to also benefit the economy which will improve income levels, encouraged dermocosmetics companies to invest substantially in marketing and advertising. Companies have invested in social media marketing; local and international beauty companies have partnered with social media influencers to increase their brand awareness and reach potential consumers over the past few years. The so-called «K-beauty» trend – South Korean brands – has also contributed to this, as many of these products have a strong dermatological focus.

This category is an OTC dominated category where there is an increased use of the internet, specifically social media to gather information about products and ways to apply them. Internet penetration being at 100% of total population in KSA as of 2022, further supports the category growth.

During the forecast period, Dermocosmetics are anticipated to experience a steady increase in retail value, capitalizing on growing income levels, expanding retail landscape and anticipated increase in skin irritations or sensitivity (arising due to acne, pigmentation, dryness and others) due to the country’s harsh climatic conditions. The category’s value sales is expected to eater proportion of the population has skin irritations and conditions due to the harsh climate to reach SAR340 million (USD90.7 million) by growing at a CAGR of 7.5% between 2023 and 2027. Furthermore, with the advent of social media, consumers are expected to grow more self-conscious of their looks, skin complexion, maintaining healthy skin for a healthier self for the long run too, increasing demand for products with functional ingredients such as niacinamide, hyaluronic acid, salicylic acid, vitamin C, among others that help in brightening and unifying complexion, all the while repairing the skin barrier.

Table No. (32): Market size of the dermocosmetics category in Saudi Arabia, 2018-2027

Category	Data Type	2018	2020	2022	2023F	2027F	CAGR % 2018-22	CAGR % 2023-27
Dermocosmetics	SAR million	218	221	237	252	340	2.2%	7.5%

Source: Euromonitor International calculations based on primary and secondary research

Note: The sales values provided in this report are based on retail selling price. Estimates may differ in other published sources due to several factors such as mark-ups applied to manufacturing prices, institutional sales, different categorization of products, exclusion of discounts, free items, taxes applied, product delays or stock retention.

33 Euromonitor analysis based on primary and secondary research

Hygiene products (hand sanitizers) and oral care market overview

The total market for Hygiene products (hand sanitizers) and oral care (as defined in this study) increased by CAGR of 11.4% between 2018 and 2022, reaching SAR1.4 billion (USD383.1 million) in the latter year. The demand for hygiene products (hand sanitizers) and essentials (oral care) during 2018-22 was largely influenced by during the Covid-19 pandemic. In addition to the encouragement from the Saudi government's educational activities to raise awareness on the importance of maintaining good hygiene practices.

The hand sanitizers market was estimated at SAR1.3 billion (USD0.35 billion) in 2022.³⁵ Pandemic triggered use of the hand sanitizers in the Kingdom, and in addition to that, WHO's advocacy for self-prevention further encouraged several beauty and personal care companies to introduce sanitizers. Unilever and Bath and Body Works have added hand sanitizers such as Hand Sanitizer Mild Care, Hand Sanitizer Nature, Hand Sanitizer Active Fresh, and in total 10 immunity-boosting anti-bacterial hand sanitizer were introduced by Unilever. Cleansing Hand Spray, PocketBac Hand Sanitizer, and PocketBac Cleansing Hand Gel were introduced by Bath and Body Works. As a more convenient alternative to soap and water, specifically when on the go, hand sanitizers have infiltrated consumer lives and have become a staple when going out. This demand is expected to further be influenced by the efforts of prominent manufacturers to provide organic and chemical-free hand sanitizers. One example of an organic and chemical-free hand sanitizer is O'right Hydrating Hand Sanitizer Gel, which contains 75% food-grade alcohol, tea tree oil, and natural moisturizing ingredients verified by EU organic organizations to keep hands clean and hydrated.

The high frequency of purchases of hygiene products (hand sanitizers) and oral care, is anticipated to normalize during the forecast period. This is partially reflected in the category's predicted growth of CAGR 1.8% between 2022 and 2027 to reach SAR1.6 billion (USD418.9 million). Innovation will drive the growth of hand sanitizers over the forecast period, with manufacturers innovating hand sanitizers' ingredients and forms. Due to their ease of use, foam hand sanitizers will be in high demand because they are fast and simple to apply. The hand sanitizers are forecasted to record modest growth of 1.0% CAGR to reach SAR1.3 billion (USD0.35 billion) between 2023-27. The oral care market was estimated at SAR157.0 million (USD41.9 million) in 2022.³⁶ Demand for oral care products such as mouthwash and toothpaste was particularly strong in 2020-2021G, with some Demand for oral care products such as mouthwashes and dental rinses was especially robust in 2020-2021, as some media reports recommended their use as a COVID-19 prevention measure. Social distancing discouraged some individuals from visiting dental clinics during the pandemic, while many health insurance providers did not cover all dental care services. This also encourages consumers to utilise a broader selection of oral care products. Additionally, the demand for oral care products was influenced by educational initiatives (such as National Oral Health Program for Primary School Children and the Ante-natal Preventive Dentistry Program) undertaken by the government, as well as schools, oral care brands, dentists, paediatricians, and pharmacists. Such activities have enabled consumers to be more aware than ever before of the need to adopt a regular dental care routine. During the forecast period, the oral care category will likely be fuelled by a growing understanding of the significance of a comprehensive oral care routine, and maintaining it over the long run as a prevention to avoid extreme situations such as root canals, loss of tooth or gum diseases and enjoy eating through good health habits even when aging which will be supported by education provided by the government, schools, and dentists.

Oral care is forecasted to grow by 7% CAGR between 2023 and 2027 to reach SAR215.0 million (USD57.3 million) later that year.

34 Euromonitor analysis based on primary and secondary research

35 Euromonitor analysis based on primary and secondary research

36 Euromonitor analysis based on primary and secondary research

Table No. (33): Market size of the hygiene products (hand sanitizers) and oral care category in Saudi Arabia 2018-2027

Category	Data Type	2018	2020	2022	2023F	2027F	CAGR % 2018-22	CAGR % 2023-27
Hygiene products (hand sanitizers) and oral care	SAR million	932	1,693	1,437	1,407	1,571	11.4%	1.8%

Source: Euromonitor International calculations based on primary and secondary research

Note: The sales values provided in this report are based on retail selling price. Estimates may differ in other published sources due to several factors such as mark-ups applied to manufacturing prices, institutional sales, different categorization of products, exclusion of discounts, free items, taxes applied, product delays or stock retention

3-4-1-2 Respiratory market overview and competitive landscape

The total market for respiratory category increased by CAGR of 4.9% between 2018 and 2022, reaching SAR3.1 billion (USD0.83 billion) in 2022.³⁷ This was primarily attributed to factors such as rising air pollution, intense dusty weather, continued high prevalence of smoking among younger age groups, growing awareness of respiratory diseases such as asthma and Chronic Obstructive Pulmonary Disease (COPD), and the ageing of the population. In 2027, total respiratory product sales are anticipated to reach SAR4.5 billion (about USD1.2 billion), at 7.3% CAGR between 2022-27.³⁸ The contribution of respiratory to the overall market is expected to increase from 9.1% in 2022 to 10.2% by 2027. This growth is expected to be driven by various factors, including early diagnosis of asthma and COPD patients, improved healthcare systems, and wider access to medicines. The incidence of smoking among the adult population is projected to rise from 7.1 million in 2022 to 7.4 million in 2026, resulting in an additional 331,000 new smokers, which will further contribute to the growth of COPD and asthma.

Roughly 65% of the respiratory medicines fall under the OTC segment which is partially influenced by majority of Saudi consumers seeking guidance from pharmacists for mild symptoms of cold and flu rather than visiting hospitals for the same. Repositioning of large retail pharmacies like Al Nahdi with enhanced consultation services with pharmacists further support this consumer trust. The remaining 35% of respiratory medicines fall under the prescription category. These are mostly for chronic respiratory conditions such as asthma and COPD.

Within the Saudi Arabian market for Respiratory products, the top five players like Haleon plc, SPIMACO, Tabuk Pharmaceutical Mfg Co, Abalon Pharma and Astra Zeneca accounted for 56.6% of total value sales in 2022.³⁹ This share was split as Haleon plc holding a 14.8% market share, SPIMACO (12.9%), followed by local producer Tabuk Pharmaceutical Mfg Co (11.0%), Avalon Pharma (9.1%), and AstraZeneca (8.8%) respectively in 2022. In 2022, the market for respiratory was relatively fragmented, with other players accounting for 43.4% of the market share. These players include other leading pharmaceutical manufacturers such as Jamjoom Pharma (Triopan, Clara), Reckitt Benckiser (Strepsils), Sanofi (Telfast and Mucosolvan), and Bayer (Clarinase and Claritine), as well as generic products.⁴⁰

In 2022, Avalon Pharma accounted for 9.1% of the total market share (calculated at Retail Selling Price) in Saudi Arabia. The Avalon total net sales reached SAR66.4 million (USD17.7 million) in 2022. Avalon Pharma's competitive advantage in the respiratory sector is its extensive selection of nasal decongestants, cough & cold preparations, and anti-asthma and COPD products, which are all available through healthcare and health insurance services with a doctor's prescription or as an OTC product. Avalon Pharma introduced to the Saudi market the nasal sprays Salinose, Avocom Aqueous NS, Rhinase, and Cortrief, as well as the anti-asthma medication Broncast. Salinose, Avocom Aqueous NS, and Rhinase exhibited the greatest year-over-year value growth between 2021 and 2022, with respective increases of 60%, 65%, and 71%. Avalon capitalized on the seasonal demand for nasal spray, which is used to relieve symptoms of hay fever and other allergies such as sneezing, a runny, congested, or itchy nose.

³⁷ Euromonitor analysis based on primary and secondary research

³⁸ Euromonitor analysis based on primary and secondary research

³⁹ Euromonitor analysis based on primary and secondary research

⁴⁰ Euromonitor analysis based on primary and secondary research

Table No. (34): Market size of the respiratory category in Saudi Arabia, 2018-2027

Category	Data Type	2018	2020	2022	2023F	2027F	CAGR % 2018-22	CAGR % 2023-27
Respiratory	SAR million	2,594	2,479	3,142	3,470	4,476	4.9%	7.3%

Source: Euromonitor International calculations based on primary and secondary research

Note: The sales values provided in this report are based on retail selling price. Estimates may differ in other published sources due to several factors such as mark-ups applied to manufacturing prices, institutional sales, different categorization of products, exclusion of discounts, free items, taxes applied, product delays or stock retention.

Table No. (35): Ranking and Market Share of Key Players in the Respiratory Category in Saudi Arabia 2022

Company	Rank	Market share (value)
Haleon plc	1	14.8%
SPIMACO	2	12.9%
Tabuk Pharmaceutical Mfg. Co	3	11.0%
Avalon Pharma	4	9.1%
AstraZeneca	5	8.8%
Others	-	43.4%

Source: Euromonitor International calculations based on primary and secondary research, all shares are calculated at Retail Selling Price (RSP)

3-4-2 Other categories

3-4-2-1 Central nervous system (topical anaesthetics) market overview

The market size for topical anesthetics products within CNS in the Kingdom grew at a CAGR of 6.7% between 2018 and 2022⁴¹ reaching SAR85 million (USD23 million). The market is driven primarily by increased interest in cosmetic dermatology and beautifying dental procedures, as well as the continued occurrence of minor injuries requiring stitches, to name a few. Lockdown restrictions, including the closure of cosmetic dermatology clinics, and practitioners only tending to emergency cases resulted in a semi-absent need for topical anesthetics products during the pandemic. On top of that low frequency of outings and socializing, resulting in decrease of minor injury occurrences, and lower upkeep of physical appearance, reduced incentives to purchase topical anesthetics products.⁴²

However, incentives returned following the lifting of restrictions, with market performance exceeding pre-pandemic levels. As the Kingdom climbs the trajectory toward achieving Vision 2030, the government is leveraging its investment power to create a more diverse and sustainable economy, which includes the aesthetics segment. On the consumer side, both men and women in Saudi Arabia are seeking aesthetic-enhancing procedures, such as botox injections, liposuction, fillers, all of which directly affect the value sales of topical anesthetics products within CNS, to reduce the associated discomfort. The most popular procedures opted for by men are botox, under-eye fillers, and jawline fillers, with social stigma overshadowed by increased acceptance of superficial cosmetic changes to appearance. More and more we also see young adults (including Gen Z and Millennials) undergoing aesthetic-enhancing procedures as early as 18 years of age. As such, all of the demographic factors previously stated intensify the demand for topical anesthetics products, with more procedures conducted year on year as the target population widens in the Kingdom.

The topical anesthetics products within CNS market in Saudi Arabia is forecasted to grow at a CAGR of 6.3% between 2022 and 2027.⁴³ The market's annual growth rate remains relatively steady, fluctuating within the range of 5% to 7%, in direct correlation with increased interest in enhancing or improving physical appearance and features, with superficial procedures that require routine maintenance, ergo the continued consumption of local topical anesthetics products.

41 Euromonitor analysis based on primary and secondary research

42 Euromonitor analysis based on primary and secondary research

43 Euromonitor analysis based on primary and secondary research

The market for topical anesthetics products within CNS is highly concentrated, with Avalon Pharma's Prila and Avocaine, as well as Stada Arzneimittel's Versatis, holding a dominant position and accounting for more than 90% of the market share (calculated at Retail Selling Price) in 2022. Prila, Avalon's flagship product, currently leads the category in terms of value share with a 61% market share (calculated at Retail Selling Price). Prila is the only combination therapy with lidocaine and prilocaine that has earned the trust and respect of consumers and physicians. Prila would benefit from continued marketing with physicians and directly to consumers about its unique combination, which is its main selling point. Also, its worth mentioning that with no current focus on innovation of new combination products in the kingdom Prila's relevance will continue in the forecast period, with no competition from other players in this therapeutic area.

3-4-2-2 Gastro-intestinal market overview

The market size for the gastro-intestinal category grew at a CAGR of 12% between 2018 and 2022 reaching SAR 2,101 million (USD560 million). Gastro-intestinal diseases and disorders such as gastroesophageal reflux disease, inflammatory bowel disease and irritable bowel syndrome are common in Saudi Arabia and are experiencing significant growth. This growth is driven by high obesity rates and unhealthy eating habits among the population, especially with the excessive consumption of fast-food products. Long termed medicine taking for long termed diseases such as lifestyle disease of heart ailment or treatment of diseases like cancer often causes gastro issues too, which leads to more regular or frequent usage of gastro-intestinal medicine as well.

The development of the healthcare sector and significant health investments by the Saudi government are also contributing to this growth by providing better healthcare facilities and increased access to healthcare products. Market demand for gastro-intestinal pharmaceutical products (such as proton pump inhibitors, antidiarrheals, and antispasmodics) was supercharged during the COVID-19 pandemic with the growth of the gastro-intestinal market estimated at 20% between 2019 and 2020.⁴⁴ The impact of COVID-19 intensified the consumer demand for gastro-intestinal remedies during the pandemic with consumers shifting from healthy traditional meals to widely available fast food service deliveries through online home delivery apps. Further, growth of population tranche affected is attributed to factors such a sedentary lifestyle, unhealthy eating habits and high obesity; however, the government is assuming an active stance in promoting healthy lifestyles among the Saudi population and creating awareness to address underlying causes that can be managed and modified. One example if the Healthy Food Promotion (HFP) national program, part of Vision 2030, includes the design and implementation of several initiatives that aim at enhancing the eating habits and the wellbeing of the Saudi population.

The market is forecasted to grow at a CAGR of 6.3% between 2022 and 2027, a less aggressive outlook than the historical period with increasing awareness of the importance of healthier living among the Saudi population and targeted government interventions to prevent gastro-intestinal and other associated comorbidities. However, with the continued stringency of sub-optimal lifestyle choices and habits, root causes of gastro-intestinal diseases unlikely to resolve in the coming years, market demand for pharmaceutical treatments for gastro-intestinal symptoms will remain stable during the forecasted period.

The gastro-intestinal market for pharmaceuticals is experiencing growth that is forecasted to sustain in the future with a fragmented competitive structure that accommodates approximately 15 major players with a gastro-intestinal portfolio. Avalon will be penetrating this therapeutic area over the forecast period with a variety of products such as antifatulents, gastroprokinetics, antiulcerants, digestive remedies, and laxatives.

3-4-2-3 Muscular skeletal market overview

The market size for muscular skeletal medicine and medical supplements in the Kingdom grew at a CAGR of 6% between 2018 and 2022 reaching SAR 2,869 million (USD765 million). The leading causes of muscular skeletal diseases and disorders in Saudi Arabia are attributed to back pain, neck pain, osteoarthritis, all attributed to a sedentary lifestyle and office-centric jobs, additionally a growth of key populations of concern population, such as those obese and overweight, as well as those above the age of 65. obesity and office-centric jobs limiting movement during the day. There is increasing demand for products and services such as medications, surgical interventions, rehabilitation services, and assistive devices to treat and prevent muscular skeletal disorders.

The muscular skeletal medicine and medical supplements market in Saudi Arabia is forecasted to grow at a CAGR of 6.5% between 2022 and 2027.⁴⁵ The market growth rate is stable and reflects the historical trend; Muscular skeletal cases are expected to retain their current momentum, in direct correlation with aging demographics and the lack of any significant innovation in this field.

⁴⁴ Euromonitor analysis based on primary and secondary research

⁴⁵ Euromonitor analysis based on primary and secondary research

The muscular skeletal market for medicine and medical supplements is experiencing growth that is forecasted to sustain in the future with a fragmented competitive structure that accommodates approximately 16 major players with a muscular skeletal portfolio. The main categories in the muscular skeletal medicine and medical supplements market are antirheumatic system drugs, muscle relaxants and topical antirheumatic drugs. Avalon is currently invested in topical antirheumatics with a 10% value share (calculated at Retail Selling Price), with their main product Avalonactiv.

3-5 Opportunity identification and company positioning

Avalon Pharmaceuticals is one of the leading players in the medicines and medicinal supplement market in Saudi Arabia, with a total net revenue of SAR276.6 million (USD73.8 million) in 2022. This revenue primarily comes from dermatologicals, dermocosmetics, respiratory and nervous systems categories which account for 82% of the company's revenue.

Table No. (36): Avalon Net Revenue 2022

Category	Data Type	Net Revenue in Saudi Arabia	Net Revenue (Exports)	Total Net Revenues
Dermatologicals and dermocosmetics	SAR Million, Net Revenue	137.6	12.7	150.3
Respiratory	SAR Million, Net Revenue	66.4	5.6	72.0
Nervous Systems	SAR Million, Net Revenue	21.7	4.3	26.0
Others	SAR Million, Net Revenue	50.9	3.5	54.4
Total Net Revenue	SAR Million, Net Revenue	276.6	26.1	302.7

Source: Avalon Pharma Company

Note: The net revenue differs from the retail sales value provided in this report. The difference is due to several factors, including mark-ups applied to the manufacturing selling price, exclusion of discounts (trade or commercial deals that companies offer to the account or free items), product delays, stock retention, and VAT applied.

Avalon emphasizes on expanding its presence and efforts beyond the Saudi market in accordance with Vision 2030 and the Saudi Arabian government's strategic goals of **«developing economic relations with the region beyond the GCC,»**. The company is identified as the well-known player in countries, primarily in the Gulf, the Middle East and Africa, including companies such as Kuwait, UAE, Jordan, Iraq, Yemen, Bahrain, Lebanon, Egypt, Sudan and Libya.

The company aims to increase its sales in the countries outside of KSA, for which it has acquired considerable experience in recent years. Avalon intends to launch novel products in international markets where they have not yet been introduced, beyond the Kingdom into cardiology products and medications, where it anticipates being the primary contributor to business growth in the majority of markets. Avalon has identified four new markets for potential entry into its plan over 2023-27: Egypt, Morocco, Indonesia, and Malaysia. The company anticipates that Egypt may significantly contribute to revenue growth by 2030.

Within Saudi Arabia, Avalon has a comprehensive product offering of 70+ products range, in 9 therapeutic areas, with over 250+ SKUs, in addition to being in the process of registering 19 new products with the Saudi Food and Drug Agency (SFDA). In addition, Avalon intends to annually introduce between three and five novel molecules from international markets that have not yet been introduced in Saudi Arabia. Avalon is aligned with the Saudi Food and Drug Agency (SFDA) and the MoH's plans for Saudi Vision 2030's to improve local production capabilities. Credibility and company reputation is rooted in state-of-the-art facilities that adhere to the stringent quality specifications and standards of the SFDA, GMP, and ISO. In terms of resources, the company has a large manufacturing capacity, with 3 production facilities and R&D capabilities and a network of 4 warehouses throughout Saudi Arabia. Avalon invested in additional production lines and capitalised on market opportunities by gradually increasing production capacity in response to rising demand for medicines and medicinal supplements during the historical period. The company intends to increase its research and development and production capacities in Saudi Arabia in order to develop general injectables and ophthalmological products by 2026.

Avalon is continuously evaluating investment opportunities in the field of manufacturing medicines and health products to provide a variety of health and physical solutions and has been successful in recent years by investing in a large number of products to expand its portfolio, develop its product line, and enter additional therapeutic categories by launching new brands. The company is expanding the breadth of its product portfolio by manufacturing and marketing new products in other therapeutic categories in the Kingdom. In addition, Avalon is moving towards a portfolio of specialized products to benefit from the localization agenda of the sector in the Kingdom of Saudi Arabia in accordance with the strategic objectives of the governments of the Kingdom of Saudi Arabia and Vision 2030, which aims to achieve self-sufficiency in the number of priority products, including various oncology preparations and treatments and solid injections.

Avalon has the capability to manufacture for large pharmacy chains by leveraging its existing manufacturing capabilities, with the possibility of manufacturing for private label across multiple categories. In addition, Avalon intends to investigate partnerships with multinational corporations to manufacture innovative products in Saudi Arabia in order to bolster its position among local competitors.



04

Issuer's Background and Nature of Business

4- Issuer's Background and Nature of Business

4-1 Company's Overview

Middle East Pharmaceutical Industries Company (hereinafter referred to as «**the Company**», «**Issuer**» or «**Avalon Pharma**») is a Saudi joint stock company under Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). The Company's current capital is (200,000,000) two hundred million Saudi riyals, divided into (20,000,000) twenty million fully paid ordinary shares, with a nominal value of (10) ten Saudi riyals per share, all of which are ordinary shares of one class.

The Company's main headquarters is located in Riyadh at the following address:

Middle East Pharmaceutical Industries Company

Second Industrial City, Riyadh

P.O. Box 3800 Riyadh 14331

Kingdom of Saudi Arabia

Tel: +966 11 2653948

Fax: +966 11 2654723

Website: www.avalonpharmaceutical.com

Email: info@avalon.com.sa

4-2 Business overview

Avalon Pharma develops, manufactures, markets and distributes a wide range of generic medicines and pharmaceutical preparations in the Kingdom of Saudi Arabia and abroad, through a diversified and high-quality product portfolio covering several diverse therapeutic categories, including medicines and preparations used in the treatment of skin diseases, skin creams, skin care preparations, respiratory system, nervous system, digestive system, musculoskeletal system, etc.

The Company's business extends to many markets in the Gulf countries, Middle East and Africa, including Kuwait, UAE, Jordan, Iraq, Yemen, Bahrain, Lebanon, Egypt, Sudan and Libya. The Company currently has (3) three factories in the city of Riyadh, Avalon Factory (1), Avalon Factory (2), and Avalon Factory (3), which are equipped with production and manufacturing lines for creams, cosmetics, liquid and solid medicines, and disinfectants. The Company completed the construction of Avalon factory (2) in 2022G, and its commercial production is expected to begin during the second quarter of 2024G.

The Company's activity, according to its Commercial Registration, is the manufacture of disinfectants and sterilizers for medical devices and products, the manufacture of disinfectants and sterilizers for non-medical use, the manufacture of cosmetics, and the manufacture of pharmaceuticals for human use.

Avalon Pharma has its wholly owned subsidiary in the United Kingdom, «**Avalon Pharma UK Holdings Limited**», which in turn owns three subsidiaries (1- Avalon Pharma Limited, 2- Avalon Cosmetics Limited, and 3- Avalon Nutrition Limited). Avalon Pharma UK Holdings Limited and the activities of its subsidiaries are engaged in the manufacturing of medicines, medicinal and non-medicinal creams and ointments. It is worth noting that Avalon Pharma UK Holdings Limited and its subsidiaries, as of the date of this Prospectus, do not have any existing operations or activities and have not entered into any business contracts or commercial projects. The Company has established its subsidiaries with the aim of investing in new emerging companies in the health sector, pharmaceutical industries, and nutritional or cosmetic supplements outside the Kingdom, and it continuously studies and evaluates potential investment opportunities that add to the Company's business portfolio and investments.

4-3 Summary of key developments

The following table lists the Company milestones since its incorporation:

Table No.(37) : Summary of key developments

Year	Event
1998G	Middle East Pharmaceutical Industries Company was established as a limited liability Company under the name « Middle East Chemical Products Factory Company »
2001G	The Company's capital was increased from (500,000) five hundred thousand Saudi riyals to (1,500,000) one million five hundred thousand Saudi riyals
2003G	The construction of the Avalon Factory (1) in the Second Industrial City in Riyadh has been completed, with production lines for creams, liquid medicines and disinfectants, as well as a research and development department.
2004G	The Company began export and distribution operations outside the Kingdom in the Middle East.
2006G	The Company's name was changed from « Middle East Chemical Products Factory Company » to « Middle East Pharmaceutical Industries Company »,
2007G	The production capacity of the liquid medicine production lines at Avalon Factory (1) has been increased to reach 9,200,000 packages annually.
2009G	The Company's capital was increased from (1,500,000) one million five hundred thousand Saudi riyals to (6,000,000) six million Saudi riyals.
2010G	The Company's export sales extended to the UAE, Bahrain, Iraq, Jordan, Kuwait, Oman, Sudan and Yemen.
2010G	The production capacity of the cream production lines at Avalon Factory (1) has been increased to 12,900,000 tubes annually.
2010G	The Company's capital was increased from (6,000,000) six million Saudi riyals to (30,000,000) thirty million Saudi riyals
2011G	the Company's capital was increased from (30,000,000) thirty million Saudi riyals to (60,000,000) sixty million Saudi riyals
2013G	Solid pharmaceutical production lines were added at Avalon Factory (1) with a production capacity of 8,100,000 strips annually.
2015G	The construction of Avalon Factory (3) with disinfectant production lines has been completed, in addition to Avalon Warehouse (2) and a special research and development department within the Riyadh Water and Energy City.
2018G	The Company merged with the Middle East Distribution Company with all its branches (3 branches).
2019G	The Company entered into its first supply and licensing agreement with the Greek Company Elpin Pharmaceutical Inc., through which Avalon supplies and distributes the Greek Company's products in the Kingdom of Saudi Arabia.
2019G	Avalon Pharma has established its UK subsidiary Avalon Pharma UK Holdings Limited.
2020G	Skin and cosmetics production lines were added at Avalon Factory (1) with a production capacity of 3,400,000 tubes annually.
2020G	The production capacity of the disinfectants production lines at Avalon Factory (3) has been increased to 2,937,600 Boxes annually.
2021G	The Company invested in (783,805) seven hundred and eighty-three thousand eight hundred and five shares (about 0.02% of the total number of shares) in the American Company Columbia Care Inc. (a public joint stock Company listed on the NEO stock market in Canada).
2022G	Avalon Pharma built a new main warehouse « Avalon Warehouse (4) », and Avalon Warehouse (2) was converted into a new factory and established with production lines for creams, liquid medicines and solid medicines, as it is expected to begin commercial production during the second quarter of 2024G.
2022G	The Company's capital was increased from (60,000,000) sixty million Saudi riyals to (200,000,000) two hundred million Saudi riyals.
2022G	The Company was converted into a joint stock Company.

Source: Avalon Pharma Company

4-4 Company History and Milestones of the Capital Structure

Middle East Pharmaceutical Industries Company was established as a limited liability company under the name «Middle East Chemical Products Factory Company» pursuant to the Articles of Association signed on 04/03/1419H (corresponding to 29/06/1998G) and Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). The Company's capital, upon its establishment, amounted to (500,000) five hundred thousand Saudi riyals, divided into (500) five hundred ordinary shares of equal value, each of which at (1,000) one thousand Saudi riyals. The shares were distributed among partners as follows:

Table No (38): Company ownership structure upon incorporation

Partners	No. of Shares	Nominal value per share (SAR)	Total nominal value of shares (SAR)	Ownership (%)
Ahmad Shafer Ahmad Al-Tabbaa	350	1,000	350,000	70.00%
Hani Bashir Abdel Hamid Al-Azm	150	1,000	150,000	30.00%
Total	500	-	500,000	100.00%

Source: Avalon Pharma Company

In 2001G, the partner Hani Bashir Abdul Hamid Al-Azm relinquished his entire shares in the Company, amounting to (150) one hundred and fifty shares, to Shafer Ahmad Shafer Al-Tabbaa, and the Company's capital was increased from (500,000) five hundred thousand Saudi riyals to (1,500,000) one million five hundred thousand Saudi riyals. The nominal value of the share was modified from (1,000) one thousand Saudi riyals to (3,000) three thousand Saudi riyals, so that the total number of shares became (500) five hundred ordinary shares of equal value, each of which at (3,000) three thousand Saudi riyals. The increase in capital amounting to (1,000,000) million Saudi riyals was effected by cash deposits in the Company's accounts. This was documented under the amended Articles of Association dated 08/01/1422H (corresponding to 02/04/2001G) and Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G) The shares were distributed among partners as follows:

Table No (39): The Company's ownership structure as of 08/01/1422H (corresponding to 02/04/2001G)

Partners	No. of Shares	Nominal value per share (SAR)	Total nominal value of shares (SAR)	Ownership (%)
Ahmad Shafer Ahmad Al-Tabbaa	350	3,000	1,050,000	70.00%
Shafer Ahmad Shafer Al-Tabbaa	150	3,000	450,000	30.00%
Total	500	-	1,500,000	100.00%

Source: Avalon Pharma Company

In 2006G, the partner Ahmad Shafer Ahmad Al-Tabbaa assigned (25) twenty-five of his shares in the Company to Abdullah Saleh Yousuf Yassin, and the partner Shafer Ahmad Shafer Al-Tabbaa assigned his entire shares in the Company, amounting to (150) one hundred and fifty shares, to each of Haitham Mohieddin Khairy Al-Jawhari under (50) fifty shares, Faisal Shafer Ahmad Al-Tabbaa (37.5) thirty-seven and a half shares, Ali Shafer Ahmad Al-Tabbaa (37.5) thirty-seven and a half shares, and Abdullah Saleh Yusuf Yassin (25) twenty-five shares. This was documented under the amended Articles of Association dated 12/12/1426H (corresponding to 12/01/2006G) and Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). The shares were distributed among the partners as follows:

Table No (40): The Company's ownership structure as of 12/12/1426H (corresponding to 12/01/2006G)

Partners	No. of Shares	Nominal value per share (SAR)	Total nominal value of shares (SAR)	Ownership (%)
Ahmad Shaher Ahmad Al-Tabbaa	325	3,000	975,000	65.00%
Abdullah Saleh Yousuf Yassin	50	3,000	150,000	10.00%
Haitham Mohieddin Khairy Al-Gohary	50	3,000	150,000	10.00%
Faisal Shaher Ahmad Al-Tabbaa	37.5	3,000	112,500	7.50%
Ali Shaher Ahmad Al-Tabbaa	37.5	3,000	112,500	7.50%
Total	500	-	1,500,000	100.00%

Source: Avalon Pharma Company

In 2006G, the Company's name was changed from «Middle East Chemical Products Factory Company» to «Middle East Pharmaceutical Industries Company», and this was documented under the amended Articles of Association dated 07/11/1427H (corresponding to 28/11/2006G) and Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G).

In 2008G, the nominal value of the share was amended from (1,000) one thousand Saudi riyals to (150) one hundred and fifty Saudi riyals, so that the total number of shares became (10,000) ten thousand ordinary shares of equal value, the value of each share being (150) one hundred and fifty Saudi riyals. The partner Ahmad Shaher Ahmad Al-Tabbaa assigned (800) eight hundred of his shares in the Company to Al-Baqa Comprehensive Marketing and Trade Company, partner Abdullah Saleh Yousuf Yassin assigned (120) one hundred and twenty of his shares in the Company to Faisal Suleiman Mohammed Al-Jamaan, partner Haitham Mohieddin Khairy Al-Jawhari assigned (95) ninety-five of his shares in the Company to Al-Baqa Comprehensive Marketing and Trade Company, and (5) five of his shares in the Company to Faisal Suleiman Mohammed Al-Jamaan, and the partner Faisal Shaher Ahmad Al-Tabbaa assigned (90) ninety of his shares in the Company to Al-Baqa Comprehensive Marketing and Trade Company, and partner Ali Shaher Ahmad Al-Tabbaa assigned ninety (90) of his shares in the Company to Al-Baqa Comprehensive Marketing and Trade Company. This was documented under the amended Articles of Association dated 11/03/1429H (corresponding to 19/03/2008G) and Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). The shares were distributed among the partners as follows:

Table No (41): The Company's ownership structure as of 11/03/1429H (corresponding to 19/03/2008G)

Partners	No. of Shares	Nominal value per share (SAR)	Total nominal value of shares (SAR)	Ownership (%)
Ahmad Shaher Ahmad Al-Tabbaa	5,700	150	855,000	57.00%
Al-Baqa Comprehensive Marketing and Trade Company	1,075	150	161,250	10.75%
Haitham Mohieddin Khairy Al-Gohary	900	150	135,000	9.00%
Abdullah Saleh Yousuf Yassin	880	150	132,000	8.80%
Faisal Shaher Ahmad Al-Tabbaa	660	150	99,000	6.60%
Ali Shaher Ahmad Al-Tabbaa	660	150	99,000	6.60%
Faisal Suleiman Mohammed Al-Jamaan	125	150	18,750	1.25%
Total	10,000	-	1,500,000	100.00%

Source: Avalon Pharma Company

In 2009G, the Company's capital was increased from (1,500,000) one million five hundred thousand Saudi riyals to (6,000,000) six million Saudi riyals, divided into (40,000) forty thousand ordinary shares of equal value, the value of each share being (150) one hundred and fifty Saudi riyals. The capital increase amounting to (4,500,000) four million five hundred thousand Saudi riyals was achieved by transferring the entire amount from the retained earnings account to the capital account. This was documented under the amended Articles of Association dated 18/09/1430H (corresponding to 08/09/2009G). and Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). The shares were distributed among the partners as follows:

Table No (42): The Company's ownership structure as of 18/09/1430H (corresponding to 08/09/2009G)

Partners	No. of Shares	Nominal value per share (SAR)	Total nominal value of shares (SAR)	Ownership (%)
Ahmad Shafer Ahmad Al-Tabbaa	22,800	150	3,420,000	57.00%
Al-Baqa Comprehensive Marketing and Trade Company	4,300	150	645,000	10.75%
Haitham Mohieddin Khairy Al-Gohary	3,600	150	540,000	9.00%
Abdullah Saleh Yousuf Yassin	3,520	150	528,000	8.80%
Faisal Shafer Ahmad Al-Tabbaa	2,640	150	396,000	6.60%
Ali Shafer Ahmad Al-Tabbaa	2,640	150	396,000	6.60%
Faisal Suleiman Mohammed Al-Jamaan	500	150	75,000	1.25%
Total	40,000	-	6,000,000	100.00%

Source: Avalon Pharma Company

In 2010G, the Company's capital was increased from (6,000,000) six million Saudi riyals to (30,000,000) thirty million Saudi riyals, and the nominal value of each share was adjusted from (150) one hundred and fifty Saudi riyals to (750) seven hundred and fifty Saudi riyals, where The total number of shares became (40,000) forty thousand ordinary shares of equal value, the value of each share (750) seven hundred and fifty Saudi riyals. The capital increase amounting to (24,000,000) twenty-four million Saudi riyals was achieved by transferring the entire amount from the retained earnings account to the capital account. This was documented under the amended Articles of Association dated 18/06/1431H (corresponding to 01/06/2010G) and Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). The shares were distributed among the partners as follows:

Table No (43): The Company's ownership structure as of 18/06/1431H (corresponding to 01/06/2010G)

Partners	No. of Shares	Nominal value per share (SAR)	Total nominal value of shares (SAR)	Ownership (%)
Ahmad Shafer Ahmad Al-Tabbaa	25,920	750	19,440,000	64.80%
Al-Baqa Comprehensive Marketing and Trade Company	2,800	750	2,100,000	7.00%
Faisal Shafer Ahmad Al-Tabbaa	2,640	750	1,980,000	6.60%
Ali Shafer Ahmad Al-Tabbaa	2,640	750	1,980,000	6.60%
Haitham Mohieddin Khairy Al-Gohary	2,000	750	1,500,000	5.00%
Abdullah Saleh Yousuf Yassin	2,000	750	1,500,000	5.00%
Faisal Suleiman Mohammed Al-Jamaan	2,000	750	1,500,000	5.00%
Total	40,000	-	30,000,000	100.00%

Source: Avalon Pharma Company

In 2011G, the Company's capital was increased from (30,000,000) thirty million Saudi riyals to (60,000,000) sixty million Saudi riyals, divided into (80,000) eighty thousand ordinary shares of equal value, the value of each share being (750) seven hundred and fifty Saudi riyals. The capital increase amounting to (30,000,000) thirty million Saudi riyals is effected by transferring the entire amount from the retained earnings account to the capital account. This was documented under the amended Articles of Association dated 20/05/1432H (corresponding to 24/04/2011G) and Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). The shares were distributed among the partners as follows:

Table No (44): The Company's ownership structure as of 20/05/1432H (corresponding to 24/04/2011G)

Partners	No. of Shares	Nominal value per share (SAR)	Total nominal value of shares (SAR)	Ownership (%)
Ahmad Shaher Ahmad Al-Tabbaa	51,840	750	38,880,000	64.80%
Al-Baqa Comprehensive Marketing and Trade Company	5,600	750	4,200,000	7.00%
Faisal Shaher Ahmad Al-Tabbaa	5,280	750	3,960,000	6.60%
Ali Shaher Ahmad Al-Tabbaa	5,280	750	3,960,000	6.60%
Haitham Mohieddin Khairy Al-Gohary	4,000	750	3,000,000	5.00%
Abdullah Saleh Yousuf Yassin	4,000	750	3,000,000	5.00%
Faisal Suleiman Mohammed Al-Jamaan	4,000	750	3,000,000	5.00%
Total	80,000	-	60,000,000	100.00%

Source: Avalon Pharma Company

In 2013G, the partner Ahmad Shaher Ahmad Al-Tabbaa assigned (2,400) two thousand and four hundred of his shares in the Company to Talal Yousuf Mahmoud Zahid. This was documented under the amended Articles of Association dated 23/12/1434H (corresponding to 28/10/2013G) and Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). The shares were distributed among the partners as follows:

Table No. (45): The Company's ownership structure as of 2312/1434H (corresponding to 28/10/2013G)

Partners	No. of Shares	Nominal value per share (SAR)	Total nominal value of shares (SAR)	Ownership (%)
Ahmad Shaher Ahmad Al-Tabbaa	49,440	750	37,080,000	61.80%
Al-Baqa Comprehensive Marketing and Trade Company	5,600	750	4,200,000	7.00%
Faisal Shaher Ahmad Al-Tabbaa	5,280	750	3,960,000	6.60%
Ali Shaher Ahmad Al-Tabbaa	5,280	750	3,960,000	6.60%
Haitham Mohieddin Khairy Al-Gohary	4,000	750	3,000,000	5.00%
Abdullah Saleh Yousuf Yassin	4,000	750	3,000,000	5.00%
Faisal Suleiman Mohammed Al-Jamaan	4,000	750	3,000,000	5.00%
Talal Yousuf Mahmoud Zahid	2,400	750	1,800,000	3.00%
Total	80,000	-	60,000,000	100.00%

Source: Avalon Pharma Company

In 2015G, the partner Ahmad Shafer Ahmad Al-Tabbaa assigned (2,400) two thousand and four hundred of his shares in the Company to Talal Yousuf Mahmoud Zahid, and the partner Faisal Suleiman Mohammed Al-Jamaan assigned (3,000) three thousand of his shares in the Company to Ahmad Shafer Ahmad Al-Tabbaa. This was documented under the amended Articles of Association dated 08/08/1436H (corresponding to 26/05/2015G) and Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). The shares were distributed among the partners as follows:

Table No. (46): The Company's ownership structure as of 08/08/1436H (corresponding to 26/05/2015G)

Partners	No. of Shares	Nominal value per share (SAR)	Total nominal value of shares (SAR)	Ownership (%)
Ahmad Shafer Ahmad Al-Tabbaa	50,040	750	37,080,000	62.55%
Al-Baqa Comprehensive Marketing and Trade Company	5,600	750	4,200,000	7.00%
Faisal Shafer Ahmad Al-Tabbaa	5,280	750	3,960,000	6.60%
Ali Shafer Ahmad Al-Tabbaa	5,280	750	3,960,000	6.60%
Talal Yousuf Mahmoud Zahid	4,800	750	3,000,000	6.00%
Haitham Mohieddin Khairy Al-Gohary	4,000	750	3,000,000	5.00%
Abdullah Saleh Yousuf Yassin	4,000	750	3,000,000	5.00%
Faisal Suleiman Mohammed Al-Jamaan	1,000	750	1,800,000	1.25%
Total	80,000	-	60,000,000	100.00%

Source: Avalon Pharma Company

In 2016G, the partner Ahmad Shafer Ahmad Al-Tabbaa assigned(2,400) two thousand and four hundred of his shares in the Company to Talal Yousuf Mahmoud Zahid, and (800) eight hundred of his shares in the Company to Yousuf Talal Yousuf Zahid. This was documented under the amended Articles of Association dated 15/05/1437H (corresponding to 24/02/2016G and Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). The shares were distributed among the partners as follows:

Table No. (47): The Company's ownership structure as of 15/05/1437H (corresponding to 24/02/2016G)

Partners	No. of Shares	Nominal value per share (SAR)	Total nominal value of shares (SAR)	Ownership (%)
Ahmad Shafer Ahmad Al-Tabbaa	46,840	750	35,130,000	58.55%
Talal Yousuf Mahmoud Zahid	7,200	750	5,400,000	9.00%
Al-Baqa Comprehensive Marketing and Trade Company	5,600	750	4,200,000	7.00%
Faisal Shafer Ahmad Al-Tabbaa	5,280	750	3,960,000	6.60%
Ali Shafer Ahmad Al-Tabbaa	5,280	750	3,960,000	6.60%
Haitham Mohieddin Khairy Al-Gohary	4,000	750	3,000,000	5.00%
Abdullah Saleh Yousuf Yassin	4,000	750	3,000,000	5.00%
Faisal Suleiman Mohammed Al-Jamaan	1,000	750	750,000	1.25%
Yousuf Talal Yousuf Zahid	800	750	600,000	1.00%
Total	80,000	-	60,000,000	100.00%

Source: Avalon Pharma Company

In 2018G, the partner Ahmad Shafer Ahmad Al-Tabbaa assigned(2,000) two thousand of his shares in the Company to Faisal Suleiman Mohammed Al-Jamaan, and (640) six hundred and forty of his shares in the Company to Yousuf Talal Yousuf Zahid, and the partner Haitham Mohieddin Khairy Al-Jawhari assigned his entire shares in the Company, amounting to (4,000) four thousand shares, to Ahmad Shafer Ahmad Al-Tabbaa, the partner Abdullah Saleh Yousuf Yassin transferred his entire shares in the Company, amounting to (4,000) four thousand shares, to Talal Yousuf Mahmoud Zahid, the partner Al-Baqa Comprehensive Marketing Company transferred all of his shares in the Company, amounting to (5,600) five thousand and six hundred shares, to Talal Yousuf Mahmoud Zahid, and the partner Faisal Shafer Ahmad Al-Tabbaa transferred (160) one hundred and sixty of his shares in the Company to Yousuf Talal Yousuf Zahid. This was documented under the amended Articles of Association dated 27/06/1439H (corresponding to 15/03/2018G) and Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). The shares were distributed among the partners as follows:

Table No. (48): The company's ownership structure as of 27/06/1439H (corresponding to 15/03/2018G)

Partners	No. of Shares	Nominal value per share (SAR)	Total nominal value of shares (SAR)	Ownership (%)
Ahmad Shafer Ahmad Al-Tabbaa	48,200	750	36,150,000	60.25%
Talal Yousuf Mahmoud Zahid	16,800	750	12,600,000	21.00%
Ali Shafer Ahmad Al-Tabbaa	5,280	750	3,960,000	6.60%
Faisal Shafer Ahmad Al-Tabbaa	5,120	750	3,840,000	6.40%
Faisal Suleiman Mohammed Al-Jamaan	3,000	750	2,250,000	3.75%
Yousuf Talal Yousuf Zahid	1,600	750	1,200,000	2.00%
Total	80,000	-	60,000,000	100.00%

Source: Avalon Pharma Company

In 2018G, the Company merged with the Middle East Distribution Company with all its branches (3 branches), which is a limited liability company owned by the same partners under Commercial Registration No. (1010175025) dated 11/01/1423H (corresponding to 03/25/2002G). After the merger, the Middle East Distribution Company and its branches became branches of the Company, with their rights and obligations. This was documented under the amended Articles of Association dated 23/12/1439H (corresponding to 03/09/2018G) and Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). The shares were distributed among the partners as follows:

Table No. (49): The Company's ownership structure as of 23/12/1439H (corresponding to 03/09/2018G)

Partners	No. of Shares	Nominal value per share (SAR)	Total nominal value of shares (SAR)	Ownership (%)
Ahmad Shafer Ahmad Al-Tabbaa	48,200	750	36,150,000	60.25%
Talal Yousuf Mahmoud Zahid	16,800	750	12,600,000	21.00%
Ali Shafer Ahmad Al-Tabbaa	5,280	750	3,960,000	6.60%
Faisal Shafer Ahmad Al-Tabbaa	5,120	750	3,840,000	6.40%
Faisal Suleiman Mohammed Al-Jamaan	3,000	750	2,250,000	3.75%
Yousuf Talal Yousuf Zahid	1,600	750	1,200,000	2.00%
Total	80,000	-	60,000,000	100.00%

Source: Avalon Pharma Company

In 2021G, the Company merged with Al-Shamila Distribution Limited Company, a limited liability company owned by the same partners under Commercial Registration No. (1010252567) dated 24/06/1429H (corresponding to 28/08/2008G). After the merger, the Al-Shamila Distribution Limited Company became a branch of the Company, with its rights and obligations. This was documented under the amended Articles of Association dated 07/03/1443H (corresponding to 13/10/2021G).and Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). The following table shows the Company's ownership structure:

Table No. (50): The Company's ownership structure as of 07/03/1443H (corresponding to 13/10/2021G)

Partners	No. of Shares	Nominal value per share (SAR)	Total nominal value of shares (SAR)	Ownership (%)
Ahmad Shafer Ahmad Al-Tabbaa	48,200	750	36,150,000	60.25%
Talal Yousuf Mahmoud Zahid	16,800	750	12,600,000	21.00%
Ali Shafer Ahmad Al-Tabbaa	5,280	750	3,960,000	6.60%
Faisal Shafer Ahmad Al-Tabbaa	5,120	750	3,840,000	6.40%
Faisal Suleiman Mohammed Al-Jamaan	3,000	750	2,250,000	3.75%
Yousuf Talal Yousuf Zahid	1,600	750	1,200,000	2.00%
Total	80,000	-	60,000,000	100.00%

Source: Avalon Pharma Company

During 2022G, the Company' capital was increased from (60,000,000) sixty million Saudi riyals to (200,000,000) two hundred million Saudi riyals, and the nominal value of one share was adjusted from (750) seven hundred and fifty Saudi riyals to (10) ten Saudi riyals. The total number of shares became (20,000,000) twenty million ordinary shares of equal value, the value of each of which is (10) ten Saudi riyals. The capital increase amounting to (140,000,000) one hundred and forty million Saudi riyals was achieved by transferring the entire amount from the retained earnings account to the capital account. This was documented under the amended Articles of Association dated 19/07/1443H (corresponding to 20/02/2022G) and Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). The following table shows the Company's ownership structure:

Table No. (51): The company's ownership structure as of 19/07/1443H (corresponding to 20/02/2022G)

Partners	No. of Shares	Nominal value per share (SAR)	Total nominal value of shares (SAR)	Ownership (%)
Ahmad Shafer Ahmad Al-Tabbaa	12,050,000	10	120,500,000	60.25%
Talal Yousuf Mahmoud Zahid	4,200,000	10	42,000,000	21.00%
Ali Shafer Ahmad Al-Tabbaa	1,320,000	10	13,200,000	6.60%
Faisal Shafer Ahmad Al-Tabbaa	1,280,000	10	12,800,000	6.40%
Faisal Suleiman Mohammed Al-Jamaan	750,000	10	7,500,000	3.75%
Yousuf Talal Yousuf Zahid	400,000	10	4,000,000	2.00%
Total	20,000,000	-	200,000,000	100.00%

Source: Avalon Pharma Company

In 2022G, the Company was transformed into a closed joint stock company pursuant to Ministry of Commerce Resolution No. (962) dated 13/09/1443H (corresponding to 14/04/2022G) and pursuant to Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (Corresponding to 26/07/1998G). The current capital of the Company is (200,000,000) two hundred million Saudi riyals, divided into (20,000,000) twenty million fully paid ordinary shares, with a nominal value of (10) ten Saudi riyals per share, all of which are ordinary shares of one class. The following table shows the Company's ownership structure upon its transformation into a joint stock company:

Table No. (52): The company's ownership structure as of 13/09/1443H (corresponding to 14/04/2022G)

Partners	No. of Shares	Nominal value per share (SAR)	Total nominal value of shares (SAR)	Ownership (%)
Ahmad Shafer Ahmad Al-Tabbaa	12,050,000	10	120,500,000	60.25%
Talal Yousuf Mahmoud Zahid	4,200,000	10	42,000,000	21.00%
Ali Shafer Ahmad Al-Tabbaa	1,320,000	10	13,200,000	6.60%
Faisal Shafer Ahmad Al-Tabbaa	1,280,000	10	12,800,000	6.40%
Faisal Suleiman Mohammed Al-Jamaan	750,000	10	7,500,000	3.75%
Yousuf Talal Yousuf Zahid	400,000	10	4,000,000	2.00%
Total	20,000,000	-	200,000,000	100.00%

Source: Avalon Pharma Company

* The word (shareholder(s)) is used in joint stock companies instead of the word (partner/partners).

In 2023G, on 25/09/1444H (corresponding to 16/04/2023G), shareholder Ahmad Shafer Ahmad Al-Tabbaa assigned all of his shares in the Company, amounting to (12,050,000) twelve million and fifty thousand shares, to Tabbaa National Holding Company, and on 25/09/1444H (corresponding to 16/04/2023G), shareholder Faisal Suleiman Mohammed Al-Jamaan assigned all of his shares in the Company, totaling (750,000) seven hundred and fifty thousand shares, of which (500,000) five hundred thousand shares assigned to Durrat Al-Wadaa Investment Company, and (250,000) two hundred and fifty One thousand shares to Durrat Al-Faisal Investment Company. This was documented in the Company's electronic shareholder register issued by the Ministry of Commerce on 11/10/1444H (corresponding to 01/05/2023G) and Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). The following table shows the Company's current ownership structure:

Table No. (53): The Company's current ownership structure

Partners	No. of Shares	Nominal value per share (SAR)	Total nominal value of shares (SAR)	Ownership (%)
Tabbaa National Holding Company	12,050,000	10	120,500,000	60.25%
Talal Yousuf Mahmoud Zahid	4,200,000	10	42,000,000	21.00%
Ali Shafer Ahmad Al-Tabbaa	1,320,000	10	13,200,000	6.60%
Faisal Shafer Ahmad Al-Tabbaa	1,280,000	10	12,800,000	6.40%
Durrat Al-Wadaa Investment Company	500,000	10	5,000,000	2.50%
Yousuf Talal Yousuf Zahid	400,000	10	4,000,000	2.00%
Durrat Al-Faisal Investment Company	250,000	10	2,500,000	1.25%
Total	20,000,000	-	200,000,000	100.00%

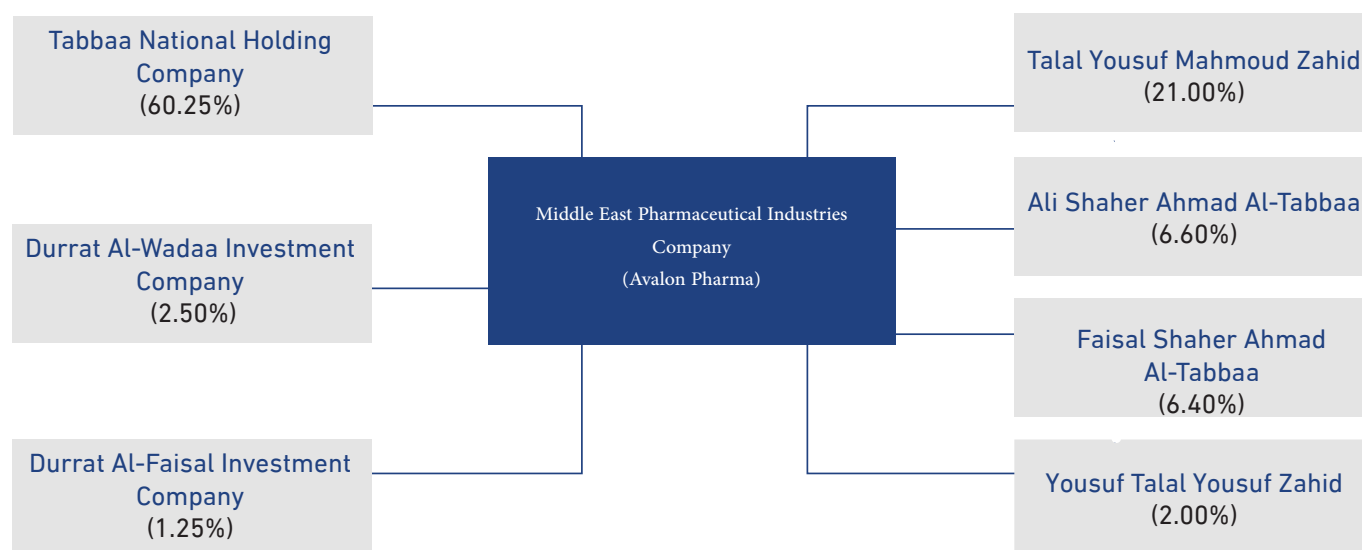
Source: Avalon Pharma Company

* The word (shareholder(s)) is used in joint stock companies instead of the word (partner/partners).

4-5 Company ownership structure

The following structure shows ownership in Middle East Pharmaceutical Industries Company:

Figure No. (1): Ownership structure in the Middle East Pharmaceutical Industries Company



Source: Avalon Pharma Company

4-6 The company's ownership structure before and after the offering

Table No. (54): The Company's ownership structure before and after the Offering

Shareholders	Pre-Offering				Post Offering			
	No. of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership (%)	No. of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership (%)
1 Tabbaa National Holding Company	12,050,000	120,500,000	60.2500%	-	8,435,000	84,350,000	42.1750%	-
2 Talal Yousuf Mahmoud Zahid	4,200,000	42,000,000	21.0000%	-	2,940,000	29,400,000	14.7000%	-
3 Ali Shafer Ahmad Al-Tabbaa	1,320,000	13,200,000	6.6000%	-	924,000	9,240,000	4.6200%	-
4 Faisal Shafer Ahmad Al-Tabbaa	1,280,000	12,800,000	6.4000%	-	896,000	8,960,000	4.4800%	-
5 Durrat Al-Wadaa Investment Company	500,000	5,000,000	2.5000%	-	350,000	3,500,000	1.7500%	-
6 Yousuf Talal Yousuf Zahid	400,000	4,000,000	2.0000%	-	280,000	2,800,000	1.4000%	-
7 Durrat Al-Faisal Investment Company	250,000	2,500,000	1.2500%	-	175,000	1,750,000	0.8750%	-
Public	-	-	-	-	6,000,000	60,000,000	30.0000%	-
Total	20,000,000	200,000,000	100.0000%	-	20,000,000	200,000,000	100.0000%	-

Source: Avalon Pharma Company

4-7 Substantial Shareholders who own 5% or more of the Company's shares

The company has (4) four Substantial Shareholders, each of whom owns 5% or more of the Company's shares as of the date of this Prospectus. The following table shows the number of their shares and their percentage of ownership before and after the Offering:

Table No. (55): Substantial Shareholders who own 5% or more of the company's shares

Shareholders	Pre-Offering				Post Offering			
	No. of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership (%)	No. of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership (%)
1 Tabbaa National Holding Company	12,050,000	120,500,000	60.25%	-	8,435,000	84,350,000	42.18%	-
2 Talal Yousuf Mahmoud Zahid	4,200,000	42,000,000	21.00%	-	2,940,000	29,400,000	14.70%	-
3 Ali Shafer Ahmad Al-Tabbaa	1,320,000	13,200,000	6.60%	-	924,000	9,240,000	4.62%	-
4 Faisal Shafer Ahmad Al-Tabbaa	1,280,000	12,800,000	6.40%	-	896,000	8,960,000	4.48%	-
Total	18,850,000	188,500,000	94.25%	-	13,195,000	131,950,000	65.98%	-

Source: Avalon Pharma Company

4-8 Company's Vision

To become the leading health, beauty and wellness company in the Kingdom of Saudi Arabic, Middle East and Africa.

4-9 Company's Mission

Develop, manufacture and market a wide range of high quality prescription medicines that treat many different diseases, over-the-counter medicines and health care and beauty products that enhance the well-being of society.

4-10 Company's strategy

In line with the Kingdom's Vision 2030 to develop the healthcare sector in the Kingdom and focus on the pharmaceutical industry and self-sufficiency of many products, in addition to the trend towards enhancing participation between the public and private sectors and encouraging investment by foreign companies in the Kingdom, Avalon Pharma has developed a business strategy that includes four basic pillars and aims for growth. Expansion in the Kingdom and abroad is as follows:

- **Accelerating growth in existing businesses in Saudi Arabia**

The Company aspires to accelerate its growth pattern, especially in its business within the Kingdom of Saudi Arabia, in an effort to develop its customer base and increase its market share of the categories of products and medicines that it manufactures and imports. Since its incorporation in 2003G, the Company has focused on increasing the production capacity of factories in tandem with the increase in the volume of demand for its products, as it increased production capacity in several time periods during the years 2007G, 2010G, 2013G, and 2020G, the last of which was in 2022G, as follows:

Table No (56): Developments in the total production capacity of the Company's factories per production line

year	Creams production lines	Skin and cosmetics production lines	Liquid pharmaceutical production lines	Solid pharmaceutical production lines*	Disinfectants production lines
Total annual production capacity when the Company was established					
2003G	6,100,000 tubes	-	4,000,000 box	-	3,500,000 box
Increase in total annual production capacity					
2007G	-	-	9,200,000 Boxes	-	-
2010G	12,900,000 tubes	-	-	-	-
2013G	-	-	-	8,100,000 stripes	-
2015G	-	-	-	-	8,250,000 box
2020G	-	3,400,000 tubes	-	-	2,937,600 box
2022G	21,760,000 tubes	-	16,320,000 box	27,200,000 stripes	-
The current total annual production capacity of the Company's factories					
	40,760,000 tubes	3,400,000 tubes	29,520,000 box	35,300,000 stripes	14,687,600 box

Source: Avalon Pharma Company

* The strip includes a certain number of tablets, and their number in one strip varies depending on the type of product and duration of use.

Note: The production capacity of factories is based on 30 working days per month and 20 working hours per day.

The Company's factories produce several categories of medicines and therapeutic products. The two main categories include: the category of products and medicines used in treating skin diseases and skin care products, and the other one is respiratory system medicines category. Other categories include nervous system medications, gastrointestinal medications, musculoskeletal medications, and other medications within various therapeutic classes. Revenues from local sales within the Kingdom constituted the largest portion of the Company's revenues, reaching 92.5%, 90.4%, and 91.4% during the years 2020, 2021, and 2022, respectively, and 92.7% during the first half of 2023G. Revenues from the two main categories together (the category of products and medicines used to treat skin diseases and skin care products, and the respiratory system medicines category) represented more than 46.8%, 67.0%, and 73.4% of total revenues during the years 2020G, 2021G, and 2022G, respectively, and 75.4% during the first half of 2023G. As part of its strategy, the Company seeks to grow its current business in the Kingdom of Saudi Arabia over the coming years and continue to develop its sales through the following:

- **Introducing new products within existing key brands**
 - Leveraging the strength of the Company's trademarks and focusing on developing other therapeutic categories for those Trademarks. Some of the Company's brands have medicines and other treatments within other therapeutic categories in which investment returns to the Company with positive results in terms of revenue volume and thus business volume and market share.
 - Introducing a new product range and a larger assortment of products and medicines within existing therapeutic categories. During the first half of 2023G, revenues from the skin and respiratory product categories represented 55.4% and 20.0% of the Company's total revenues, respectively, and they are the Company's two main therapeutic categories. The Company has an opportunity to expand the product base within the current therapeutic categories, especially the products of those categories that constitute the smallest part of the Company's business, which include diabetes drug products, chronic primary care products, and cardiovascular and nervous system drugs.

- **Developing the Company's current key Trademarks**
 - The Company has more than 70 trademarks. It seeks to take advantage of the equity of small, low-performing brands in terms of revenues and focus on developing them into large brands. The Company recently selected about 50 clients from pharmacies, pharmacy chains and hospital pharmacies with the aim of focusing on developing low-performing brands and thus increasing the volume of business from them. These products have good growth opportunities according to the results achieved recently, and according to the market survey and the opinions of customers and end users.
 - Providing an additional, larger collection in terms of package sizes and drug doses.
 - Canceling the license of brands of low performance, which contributes to improving the supply chain and optimal inventory rotation.
- **Focus on spreading existing brands and promoting them further**
- **Increase the development of tender work.**
 - Launching new products suitable for tender work.
 - Taking advantage of the government's increasing preference to award contracts to local pharmaceutical manufacturing companies.
- **Explore partnership opportunities with large chain pharmacies, hospital pharmacies and retail pharmacies that leverage Avalon Pharma's existing manufacturing capabilities.**
- **Investing in new products and launching brands**

Avalon Pharma is considered a leading company in manufacturing and producing medicines in the Kingdom. According to the results of the market study prepared by Euromonitor International (see Section (3) «**Overview of the Market and Sector**» of this Prospectus), the Company had the largest market share of the products and medicines market in dermatology and skin care products with a share of 8.9%, in addition to the fourth largest share of the respiratory medicines market with a share of 9.1%. The Company is constantly working on studying investment opportunities in the field of manufacturing medicines and health products to provide a range of health and physical solutions. Over the past years, it has succeeded in investing in a large number of products to increase the size of its portfolio, develop the product assortment, and enter into additional therapeutic categories by launching new brands. Its strategy includes:

- Increasing the depth of the Company's product portfolio by introducing the manufacture and marketing of new products within other therapeutic categories within the Kingdom. The Company has identified some therapeutic categories that it is studying to start manufacturing by the year 2026G, which include general injections, ophthalmic products, and medicines for treating cancer.
- The Company has recently selected about 80 chemical molecular compounds, a group of which it will select after completing the necessary market studies and research, with the aim of developing, manufacturing, registering and launching them over the next few years. The strategy to develop these molecules focuses on strengthening on the shelf product base within the dermatology, respiratory and other categories, in addition to maximizing retail opportunities and leveraging existing brands to stimulate business growth.
- Avalon Pharma will focus on bringing 3 to 5 new pharmaceutical molecules (compounds) annually from global markets that have not yet been launched in Saudi Arabia.
- Moving towards a portfolio of specialized products to benefit from the sector's localization agenda in the Kingdom of Saudi Arabia in line with the strategic objectives of the governments of the Kingdom of Saudi Arabia and Vision 2030, which aims to achieve self-sufficiency in a number of priority products such as various oncology preparations and treatments and solid injections.

- Research and investment in specialized areas with high growth potential.
- Expanding the product base that is characterized by limited presence among competitors and profitable investment.
- Building on the Company's ability to establish and market new consumer brands.
- Explore partnerships with multinational companies to manufacture innovative products in Saudi Arabia that will positively impact Avalon Pharma's image and strengthen its position among other local players.

Expanding export business outside the local Saudi market

In line with Vision 2030 and the strategic goals of the Government of the Kingdom of Saudi Arabia to «**develop economic relations with the region outside the GCC**», Avalon Pharma will focus on expanding its presence and efforts outside the Saudi market. Currently, the Company's sales extend outside the Kingdom to many countries in the Gulf, the Middle East, and Africa, mainly including Kuwait, UAE, Jordan, Iraq, Yemen, Bahrain, Lebanon, Egypt, Sudan, and Libya. The Company's revenues from foreign sales to export customers amounted to 22.5, 27.4, and 26.1 million Saudi riyals during the years 2020, 2021, and 2022G, respectively, and 10.9 million Saudi riyals during the first half of 2023G. Export sales also constituted 7.5% and 9.6%. 8.6% of the Company's total revenues during the same years in a row, and 7.4% during the first half of 2023G.

The United Arab Emirates currently has the largest share of the Company's export sales, as revenues from it during the years 2020, 2021, and 2022 constituted 39.3%, 28.3%, and 17.3% of total export revenues, respectively, and 44.9% during the first half of 2023G, followed by the State of Kuwait, at 14.0%, 17.7%, and 20.3% during the same years, respectively, and 35.8% during the first half of 2023G.

The Company has gained strong experience over the past years in exporting outside the Kingdom from the operational, economic, regulatory and legal aspects, especially with regard to registering products and medicines and obtaining approvals and permits in accordance with the different requirements of each country to which it exports. The Company finds a good opportunity to increase the volume of its business outside the Kingdom, as follows:

- Focus on expanding current business in the State of Kuwait and the United Arab Emirates, which are considered one of the largest export markets for the Company and has strong growth opportunities in the future.
- Expanding export business by entering new markets and exporting existing products to new countries by focusing on rapid registration of products and expanding the scope of distribution.
- Avalon Pharma has identified 4 markets for expansion and potential entry within its plan over the next few years, which are Egypt, Morocco, Indonesia, and Malaysia. The Company has determined the appropriate operating model in each of these markets based on the smallest details in those markets, the level of competition from local players in them, and all Regulatory requirements for each of these countries. The Company will explore opportunities to build strategic partnerships with local players in each of them. The Company expects Egypt to contribute mainly to revenue growth by 2030G.
- Avalon Pharma will focus on launching new pharmaceutical molecules (compounds) from global markets where they have not yet been launched.
- The Company will work to expand outside the Kingdom into cardiac disease products and medicines, as it is expected to be the main contributor to business growth in most markets.

A gradual increase in the production capacity of factories

Since the establishment of Avalon Factory (1) in 2003G, the Company has realized the importance of continuous development and immediate keeping up with the latest technical developments in the pharmaceutical industry. From this standpoint, the growth of the Company's business played a major role in pushing the Company to enter into additional investments in production lines and exploit market opportunities by gradually increasing production capacity in tandem with the increase in demand. The Company increased production capacity over several time periods during the years 2007G, 2010G, 2013G, 2015G, and 2020G, the last of which was in 2022G. The Company expects that the coming years may require new additions to its manufacturing capacity, especially in the production lines of skin and cosmetic products (see Section No. (4-17) «**The Company's Factories**» from this Prospectus).

4-11 The Company's strengths and competitive advantages

- **Large manufacturing capacity with high quality with the latest facilities and capabilities**

The Company has state-of-the-art facilities that adhere to the strict quality specifications and standards of the Food and Drug Authority, Good Manufacturing Practices, and ISO certifications. In terms of resources, the Company has a large manufacturing capacity through 3 manufacturing facilities that include research and development departments, in addition to a network of 4 warehouses that supply its products to all parts of the Kingdom. Avalon Pharma has continuously invested in additional production lines and capitalized on market opportunities by gradually increasing production capacity in response to the growing demand for medicines and medical supplements.

In addition, the manufacturing facilities are equipped with laboratories and quality control departments that employ an integrated and continuous approach to managing production processes and monitoring all stages of manufacturing to ensure accuracy, speed and high quality of the final products. Avalon Pharma devotes strict attention to product quality, and the Company's quality control process focuses on identifying the best licensed suppliers of various chemical raw materials, active ingredients, packaging materials and supplies to ensure compliance with the required and specified conditions and standards. Avalon Pharma routinely inspects its raw materials and finished products. The laboratories located within the factory are equipped with the latest devices and advanced analytical techniques to ensure the maximum quality of its products.

- **Proven track record in launching pioneering products across diverse therapeutic categories**

Avalon Pharma in the Kingdom of Saudi Arabia has a product range that includes more than 250 products falling under more than 70 brands within several therapeutic categories, including medicines and preparations used in the treatment of skin diseases, skin creams and skin care preparations, respiratory system medicines, nervous system medicines, and systemic medicines, Gastrointestinal, musculoskeletal drugs, in addition to a wide variety of drugs and preparations in other therapeutic categories including sexual system drugs, diabetes, cardiovascular drugs, anti-infectives, anti-parasitic drugs, pain relievers, antiseptics, and women's and men's health drugs. In addition, work is underway to register 19 new products with the Food and Drug Authority, including 4 skin medicines, 4 respiratory medicines, 1 digestive system medicine, 1 musculoskeletal medicine, and 9 various medicines within the Company's other therapeutic categories, as the registration period generally ranges between 12 months up to 18 months.

- **A leading company in the market of dermatological products, medicines and skin care products**

Avalon Pharma leads the market for dermatological products, medicines, and skin care products during the year 2022G, with a market share amounting to 8.9% of the total market size, according to the results of the market study prepared by Euromonitor International, as its revenues from this category constituted 49.6% of the Company's total revenues.

- **The Company's ability to expand geographically on a large scale**

The Company's business has expanded to many foreign markets in the Gulf countries, the Middle East and Africa, which include Kuwait, the Emirates, Jordan, Iraq, Yemen, Bahrain, Lebanon, Egypt, Sudan and Libya. It also seeks to develop the volume of business outside the Kingdom and export its products to new countries such as Morocco, Indonesia and Malaysia in the coming years.

- **Experienced leadership and experienced management team**

Avalon Pharma has a distinguished executive management team with deep experience in the field of pharmaceutical industry. The team members have high competence and full knowledge of the characteristics of developing and marketing the Company's products and managing related operations. The Operations Department also includes many specialized employees including pharmacists, chemists and scientists with extensive experience in the pharmaceutical industry and research and development. All departments in the Company work in an integrated manner to develop the Company's business and achieve the strategy of management and shareholders in the short and long term.

- **Distinctive relationship with customers**

Avalon Pharma has developed strong business relationships with its clients in the government and the private sectors, including hospitals, clinics, pharmacy chains (pharmacies with a large number of branches), major pharmacies, regional distributors and supermarkets, and is focused on strengthening its relationships directly with doctors and pharmacists on an ongoing basis.

4-12 Major Company Activities

Avalon Pharma develops, manufactures, markets and distributes a wide range of generic medicines and pharmaceuticals in the Kingdom of Saudi Arabia and abroad through a diversified, high-quality product portfolio covering several therapeutic categories. The Company's activity, according to its Commercial registration, is the manufacture of disinfectants and sterilizers for medical devices and products, the manufacture of disinfectants and sterilizers for non-medical use, the manufacture of cosmetics, and the manufacture of pharmaceuticals for human use. The Company's objectives, according to its Bylaws are:

- Transformative Industries.
- Transportation and storage.
- Wholesale and retail trade and repair of motor vehicles and motorcycles.

The Company does not carry out its activities except after obtaining the regulatory licenses required by the prevailing regulations in force in the Kingdom of Saudi Arabia. The Company has obtained all the required regulatory licenses, and all of these licenses are still in effect until the date of this Prospectus (see Section (12-5) «**Certificates, Approvals, and Licenses Obtained by the Company**» of this Prospectus).

The Company carries out its main activities through its headquarters in the city of Riyadh, and as of the date of this Prospectus, and other than what was mentioned in Section No. (4-14) «**The Subsidiary**» of this Prospectus, the Company's Board of Directors declares that the Company does not have any commercial activity or any assets outside the Kingdom. The Company's Board of Directors declares that there is no intention to make any fundamental change to the nature of the Company's activity, and also declares that there are no new activities or products.

4-13 Company Business

Avalon Pharma develops, manufactures, markets and distributes a wide range of generic medicines and pharmaceutical preparations in the Kingdom of Saudi Arabia and abroad, through a diverse and high-quality product portfolio covering several diverse therapeutic categories. The company produces more than 250 products falling under more than 70 brands. Work is underway to register 19 new products with the Food and Drug Authority, including 4 skin medicines, 4 respiratory medicines, 1 digestive system medicine, 1 musculoskeletal medicine, and 9 various medicines within the Company's other therapeutic categories. The registration period generally ranges between 12 to 18 months.

The Company's business extends to many markets in the countries of the GCC region, Middle East and Africa, including Kuwait, UAE, Jordan, Iraq, Yemen, Bahrain, Lebanon, Egypt, Sudan and Libya.

The Company's products include the following:

- Medicines and preparations used to treat skin diseases, skin creams and skin care products.
- Respiratory system medications.
- Nervous system medications.
- Digestive system medications.
- Musculoskeletal system medications.
- A variety of medicines and preparations within other therapeutic categories, including sexual system medicines, diabetes, cardiovascular medicines, anti-infective medicines, anti-parasitic medicines, pain relievers, antiseptics, and women's and men's health medicines.

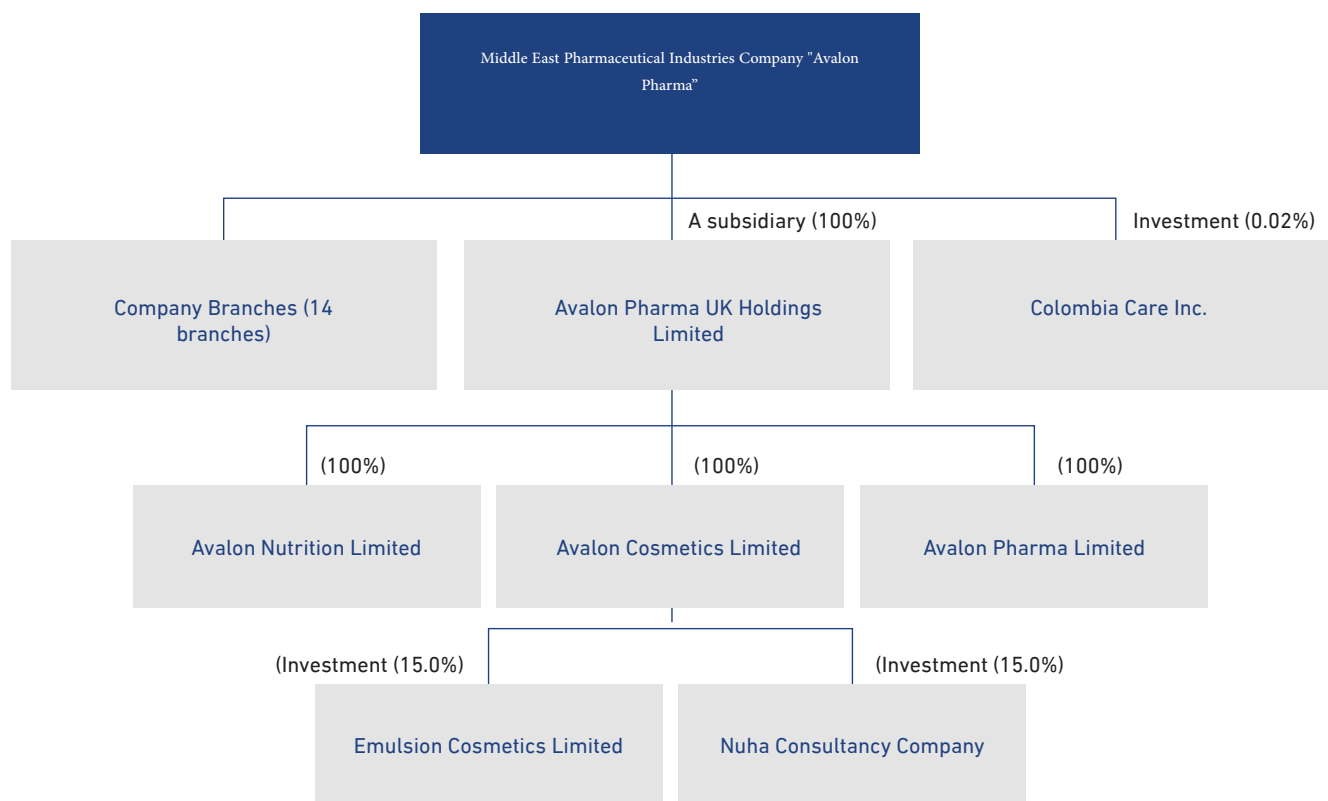
The Company currently has (3) three factories in the city of Riyadh, Avalon Factory (1), Avalon Factory (2), and Avalon Factory (3), which are equipped with production and manufacturing lines for creams, cosmetics, liquid and solid medicines, and disinfectants. The Company has completed the establishment of the Avalon Factory (2) In 2022G, as it is expected to begin commercial production during the second quarter of 2024G. The Company's factories have a total production capacity as follows:

- Cream production lines: 40,760,000 tubes
- Skin and cosmetics production lines: 3,400,000 tubes
- Liquid medicine production lines: 29,520,000 boxes (packages)
- Solid drug production lines: 35,300,000 tubes
- Disinfectant production lines: 14,687,600 boxes (packages)

(See Section (4-17) «**The Company's Factories**» of this Prospectus)

During the year 2020G, the Company built its main central warehouse, «**Avalon Warehouse (4)**» in the city of Riyadh, adjacent to the Avalon (2) and Avalon (3) factories, with a total building area of 5,137 square meters, and it is fully equipped to store finished products and raw materials (See Section (4-25) «**Storage and Shipping**» of this Prospectus). Avalon Pharma has a subsidiary in the United Kingdom and (14) fourteen branches, in addition to investments in (1) (783,805) seven hundred and eighty-three thousand eight hundred and five shares (about 0.02% of the total number of shares) in the American listed Company Columbia Care Inc., which is listed on the NEO stock market in Canada, which operates in the field of manufacturing medical pharmaceuticals and health solutions; (2) 15.0% (through a subsidiary) in Nuha Consultancy Company, which operates in the retail sale of cosmetics and beauty tools in specialized stores; 3 15.0% (through a subsidiary) in Emulsion Cosmetics Limited, which operates in the retail sale of cosmetics and beauty tools in specialized stores, as shown in the following figure:

Figure No. (2): Ownership structure of the Middle East Pharmaceutical Industries Company in its subsidiaries, branches and investees companies



Source: Avalon Pharma Company

4-14 The Subsidiary

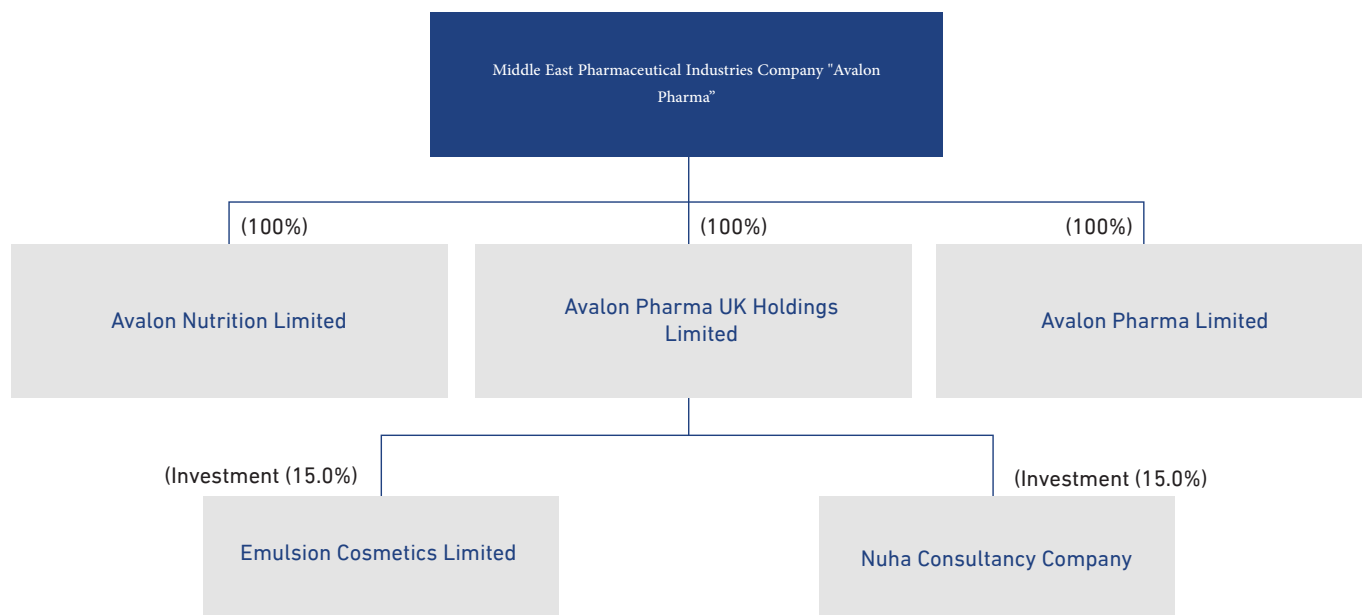
Avalon Pharma UK Holdings Limited

Avalon Pharma UK Holdings Limited is a wholly-owned subsidiary of the Middle East Pharmaceutical Industries Company. It is a limited liability company under company registration certificate No. (12214173) issued by the Register of Companies in the United Kingdom on 19/01/1441H (corresponding to 18/09/2019G). Avalon Pharma UK Holdings Limited has a capital of (1) one British pound divided into (1) one ordinary share with no nominal value. It fully owns three subsidiaries, and its activities are the manufacture of medicines, medicinal and non-medicinal creams and ointments.

It is worth noting that Avalon Pharma UK Holdings Limited does not have any existing operations or activities as of the date of this Prospectus and has not entered into any business contracts or commercial projects. The Company has established this The Subsidiary to comprise three subsidiaries: (1) Avalon Pharma Company Ltd., which specializes in pharmaceutical products; (2) Avalon Cosmetics Limited, which specializes in cosmetics; and (3) Avalon Nutrition Limited, which specializes in health products and nutritional supplements.

The subsidiaries were established with the aim of investing in new emerging companies in the health sector, pharmaceutical industries, and nutritional or cosmetic supplements. The Company studies and evaluates potential investment opportunities that add to its business portfolio and investments.

Figure No. (3): Ownership structure of Avalon Pharma UK Holdings Limited in its subsidiaries



Source: Avalon Pharma Company

Avalon Pharma Limited: It is a wholly-owned subsidiary of Avalon Pharma UK Holdings Limited, and it is a limited liability company under company registration certificate No. (12235087) issued by the Companies Register in the United Kingdom on 01/02/1441H (corresponding to 30/09/2019G). Avalon Pharma Limited has a capital of (1) one British pound divided into (1) one ordinary share with no nominal value. Its head office is located in the United Kingdom, and its activities include manufacturing medicines, medical and non-medical creams, and ointments.

Avalon Pharma Limited was established with the aim of investing in new emerging companies specializing in pharmaceutical products. It is worth noting that Avalon Pharma Limited does not have any existing businesses or activities and has not entered into any business contracts or commercial projects, and therefore it does not have any revenues as of the date this Prospectus.

Avalon Cosmetics Limited: is a wholly owned subsidiary of Avalon Pharma UK Holdings Limited, and is a limited liability company under Company Registration Certificate No. (12214443) issued by the United Kingdom Companies Register on 19/01/1441H (corresponding to 18/09/2019G). Avalon Cosmetics Limited has a capital of (1) one British pound divided into (1) one ordinary share with no nominal value. Its head office is located in the United Kingdom, and its activities include manufacturing medicines, medicinal and non-medicinal creams, and ointments.

Avalon Cosmetics Limited was established with the aim of investing in new emerging companies specializing in cosmetics. It is worth noting that, as of the date of this Prospectus, Avalon Cosmetics Limited does not have any existing operations or activities and has not entered into any business contracts or commercial projects. Its business is only in the value of its investments in Nuha Consultancy Company and Emulsion Cosmetics Limited, and work is underway to complete the liquidation of both companies (see Section No. (6-2-2-1) «**Non-current Assets**» of this Prospectus).

Avalon Nutrition Limited: It is a wholly owned subsidiary of Avalon Pharma UK Holdings Limited, and it is a limited liability company under Company Registration Certificate No. (12235083) issued by the Companies Register in the United Kingdom on 01/02/1441H (corresponding to 30/09/2019G). Avalon Cosmetics Limited has a capital of (1) one British pound divided into (1) one ordinary share with no nominal value. Its head office is located in the United Kingdom, and its activities include manufacturing medicines, medicinal and non-medicinal creams, and ointments.

Avalon Nutrition Limited was established with the aim of investing in new emerging companies specializing in health products and nutritional supplements. It is worth noting that Avalon Nutrition Limited does not have any existing businesses or activities and has not entered into any business contracts or commercial projects, and therefore it does not have any revenues as well as of the date of this Prospectus.

4-15 Investments

4-15-1 Investing in Columbia Care Inc.

On 28/07/2020, the Company purchased a 5.0% stake in Columbia Care International Holdco's at a value of (5,000,000) five million euros (equivalent to (21,485,620) twenty-one million four hundred and eighty-five thousand six hundred and twenty Saudi riyals). which is a wholly owned subsidiary of Columbia Care Inc. USA. This investment was disposed in 2021G through a swap agreement, whereby Avalon Pharma, in exchange for its share in Columbia Care International Holdco, obtained (783,805) seven hundred and eighty-three thousand eight hundred and five shares (about 0.02% of the total number of shares) in the American company Columbia Care Inc.

Columbia Care Inc. is a publicly traded company (listed on the NEO Stock Market in Canada) headquartered in the US state of Delaware and engaged in the manufacture of medical pharmaceuticals and health solutions.

Columbia Care Inc.'s activities include developing new treatments to be regulated and launched globally, especially in the United States of America, Canada, and Europe. Investment in them is for the purpose of global expansion of these treatments and introducing them to the Kingdom of Saudi Arabia and the Middle East region in the future as soon as the necessary approvals are obtained and they are approved legally.

During 2021G, Avalon Pharma recorded a loss from the disposal of investment in Columbia Care International Holdco, amounting to (2,756,457) two million seven hundred and fifty-six thousand, four hundred and fifty-seven Saudi riyals in 2021. The market value of the investment in the American company Columbia Care Inc. amounted to (21,485,620) twenty-one million four hundred and eighty-five thousand six hundred and twenty Saudi riyals as of December 31, 2020, and (8,417,517) eight million four hundred and seventeen thousand five hundred and seventeen Saudi riyals as of December 31, 2021G, (2,207,390) two million two hundred and seven thousand three hundred and ninety Saudi riyals as of December 31, 2022G, and (1,280,287) one million two hundred and eighty thousand two hundred and eighty-seven Saudi riyals as of June 30, 2023G. Those losses from the decline in the value of the investment were reversed within the other comprehensive loss in the income statement, as the loss from the net change in fair value amounted to (zero Saudi riyals) as of December 31, 2020G, and (10,311,650) ten million three hundred and eleven thousand six hundred and fifty Saudi riyals as of December 31, 2021G, and (6,210,127) six million Two hundred and ten thousand, one hundred and twenty-seven Saudi riyals as of December 31, 2022G, and (927,103) nine hundred and twenty-seven thousand, one hundred and three Saudi riyals as of June 30, 2023G (see Section (6-2-2-1) «**Non-Current Assets**» of this Prospectus).

4-15-2 Investing in Nuha Consultancy Company

Nuha Consultancy Company is a limited liability company under company registration certificate No. (BC1849760) issued by the Companies Registry in the British Virgin Islands on 24/01/1436H (corresponding to 17/11/2014G). The capital of Nuha Consultancy Company is (58,824) fifty-eight thousand eight hundred and twenty-four pounds sterling, divided into (58,824) fifty-eight thousand eight hundred and twenty-four ordinary shares with no nominal value. Its head office is located in the British Virgin Islands, and its activities are the retail sale of cosmetics and beauty tools in specialized stores.

During March 2020G, Avalon Cosmetics Limited, an indirectly wholly owned subsidiary of the Company, purchased a 15.0% ownership stake in Nuha Consultancy Company for a total amount of (1,090,816) one million ninety thousand eight hundred and sixteen Saudi riyals. The market value of the investment in Nuha Consultancy Company remained stable during the years 2020G, 2021G, and 2022G at the amount of (1,090,816) million and ninety thousand eight hundred and sixteen Saudi riyals. During the first half of 2023G, Nuha Consultancy Company faced problems related to liquidity and is being liquidated. the market value of the investment reached (zero Saudi riyals) as of June 30, 2023G.

The losses from the decline in the value of the investment during the first half of 2023G were reversed within the other comprehensive loss in the income statement, as the loss from the net change in fair value amounted to (1,090,816) million and ninety thousand eight hundred and sixteen Saudi riyals as of June 30, 2023 (see Section (6-2-2-1) «**Non-current assets**» of this Prospectus).

4-15-3 Investing in Emulsion Cosmetics Limited

Emulsion Cosmetics Limited is a limited liability company under Company Registration Certificate No. (10632513) issued by the Companies Register in the United Kingdom on 25/05/1438H (corresponding to 22/02/2017G). The capital of Emulsion Cosmetics Limited is (190,482) one hundred and ninety thousand four hundred and eighty-two British pounds, divided into (190,482) one hundred and ninety thousand four hundred and eighty-two ordinary shares with no nominal value. Its head office is located in the United Kingdom, and its activities are the retail sale of cosmetics and beauty tools in specialized stores.

During March 2020G, Avalon Cosmetics Limited, an indirect wholly owned subsidiary of the Company, purchased a 15.0% ownership stake in Emulsion Cosmetics Limited for a total amount of (140,754) one hundred and forty thousand seven hundred and fifty-four Saudi riyals.

The market value of the investment in Emotion Cosmetics Limited amounted to (140,754) one hundred and forty thousand seven hundred and fifty-four Saudi riyals as of December 31, 2020G, and on 08/04/2021G and 21/12/2021G, Avalon Cosmetics Limited contributed two additional payments in the capital of Emulsion Cosmetics Limited amounted to (73,352) seventy-three thousand three hundred and fifty-two Saudi riyals and (93,139) ninety-three thousand one hundred and thirty-nine Saudi riyals, respectively. Therefore, the value of the investment in Emotion Cosmetics Limited amounted to (307,245) three hundred and seven thousand two hundred and forty-five Saudi riyals as of December 31, 2021G and December 31, 2022G. During the first half of 2023G, Emulsion Cosmetics Limited faced problems related to liquidity and is being liquidated, where the market value of the investment in it reached (zero Saudi riyals) as of June 30, 2023G.

The losses from the decline in the value of the investment during the first half of 2023G were reversed within the other comprehensive loss in the income statement, as the loss from the net change in fair value (307,245) amounted to three hundred and seven thousand two hundred and forty-five Saudi riyals as of June 30, 2023 (see section (6-2-2-1) «**Non-current assets**» of this Prospectus).

Other than the subsidiaries and investment activities of Columbia Care Inc. and the Company's branch offices in the United Arab Emirates, the Company does not have any commercial activity outside the Kingdom and does not have any property or assets outside the Kingdom as of the date of this Prospectus.

4-16 Company Products and their Trademarks

Categories of the main products and trademarks

Avalon Pharma's products fall under several therapeutic categories, and the two main categories are (1) medicines, dermatological products, and skin care products, which had the largest share of total revenues during the years 2020, 2021, and 2022G, at 35.1%, 49.8%, and 49.6%, respectively, and 55.4% during the first half of 2023G, and (2) respiratory medicines, which had the second largest share of total revenues during the same years at 11.7%, 17.2%, and 23.8%, respectively, and 19.96% during the first half of the year 2023G.

Other therapeutic categories include nervous system medications, digestive system medications, and musculoskeletal medications, in addition to various other therapeutic categories, revenues from which together constituted 53.2%, 33.0%, and 26.6% of total revenues during the years 2020G, 2021G and 2022G, respectively, and 24.6% during the first half of 2023G.

The Company has a wide range of prescription and non-prescription (over-the-counter) medicines and pharmaceuticals within the therapeutic product categories in which it operates, and revenues from prescription medicines accounted for 37.6%, 54.9% and 59.6% of total revenues. During the years 2020G, 2021G, and 2022G, respectively, and 61.0% during the first half of 2023G.

The number of products exceeds more than 250 products falling under more than 70 trademarks, and work is underway to register 19 new products with the Food and Drug Authority, including 4 skin medications, 4 respiratory medications, 1 digestive system medication, 1 musculoskeletal medication, and 9 miscellaneous medications within the categories. The Company's other therapeutic options, as the registration period generally ranges from 12 to 18 months. Among the most important products of Avalon Pharma are dermatology medicines that carry the brand «**Avogain**» (a topical solution that stimulates hair growth and prevents hair loss) and «**Alpha Plus**» (a cream to lighten pigmentation and unify skin tone), and respiratory medicines that bear the trademark «**Salinose**» (Saline solution to moisturize and clean the nose) and «**Avocom**» (a water nasal spray used to treat the symptoms of seasonal allergic rhinitis and perennial rhinitis), in addition to the brand of sterilizer products «**EZ Clean**», which witnessed an unusual jump in sales during the years 2020G and 2021G due to the Corona virus pandemic (Covid-19) at the time.

The following table shows the Company's products according to therapeutic categories and its most important brands:

Table No. (57): The Company's products according to therapeutic categories

Category	Product general description	No. of trademarks	The Company's most important trademarks within the therapeutic category
Dermatologicals and skin care products	Multi-use medicines, products and preparations that help treat skin diseases such as bacterial and fungal infections, dermatitis, alopecia, hair loss, dryness and cracks in the skin, burns and scars, skin care, skin health and hygiene, etc.	23	Avogain Alpha Plus Avocom-M EZ Care Avomeb Extra Avoban Avomeb
Respiratory system medications	Multi-use medications that help treat nasal allergies, asthma, and respiratory diseases.	7	Salinose Avocom NS Rhinaze NS Cortrief NS Broncast Rolenium
Nervous system medications	Versatile products for nerve anesthesia and local anesthesia.	2	Prila Avocaine
Gastrointestinal medications	Multi-use medicines that help treat diseases of the digestive and internal systems, stomach problems, and nutrition.	8	Avohex Avodyl Avalon povidone Iodine MW Rotavex
Musculoskeletal drugs	Multi-use medications that help relieve musculoskeletal pain.	4	AvalonActiv Avotrene Xibax Exxara
Other medications in various therapeutic classes	It includes sexual, diabetes, cardiovascular, anti-infective, anti-parasitic, pain relievers, antiseptics, and women's and men's health medications.	27	Amaglime Lyrgaba Avocin Avialis Candan Amodip Tavflox Virecta Evoka EZ Clean

Source: Avalon Pharma Company

In addition to the products it manufactures, the Company saw the importance of forming strategic alliances with some international companies in Europe whose products add value to the Company's portfolio and contribute to expanding the current product lineup with international products that will have a positive impact on its business. From this standpoint, in 2016G, the Company entered into the first supply and licensing agreement with the Greek company Elpin Pharmaceutical Inc., through which Avalon Pharma supplies and distributes the Greek company's products in the Kingdom of Saudi Arabia. It continued to enter into such partnerships with two other companies represented by the French company Techniture S.A. .s. and the German company Averrois Naturalia GmbH.

(See Section (12-6-2) «**Summary of the Company's Essential Contracts**» of this Prospectus).

Among the most important products that the Company supplies are the «**Alpha Plus Mask**» products (a mask to lighten pigmentation and unify skin tone), which falls under the category of Dermatologicals, skin care products, and «**Rolenium**» (used in treating asthma), which falls under the respiratory system medications category.

The Company has concluded agreements to supply medicines and health products with three international companies, under which the Company has the right to sell, distribute and market their products within the Kingdom of Saudi Arabia. The following table shows the details of these agreements:

Table No. (58): Suppliers of imported products

Supplier	Country of origin
Technature SAS	France
Elpen Pharmaceutical Co Inc.	Greece
Averroes Naturalia GmbH	Germany

Source: Avalon Pharma Company

(See Section No. (12-6-2) «**Summary of the Company's Essential Contracts**» of this Prospectus)

4-17 The Company's Factories

The Middle East Pharmaceutical Industries Company (3) has three factories in the city of Riyadh, Avalon Factory (1), Avalon Factory (2), and Avalon Factory (3), which are equipped with machines, devices, and production lines for manufacturing creams, skin and cosmetic products, liquid and solid medicines, and disinfectants.

Manufacturing processes are subject to periodic oversight by the Saudi Food and Drug Authority to ensure full compliance with the manufacturing methods used by the Company, as well as the Company's facilities and systems in place for manufacturing, packaging and storing pharmaceutical products in accordance with Good Manufacturing Practices (GMP) and other regulatory guidelines.

The Company's production department falls under the Operations Department, and it works to train and develop the workforce of supervisors, operators and technicians in the field of production.

Avalon Factory (1):

Avalon Factory (1) was established in 2003G in the Second Industrial City of Riyadh. Its building area is 1,292 square meters and it is located on land owned by the Company with an area of 2,290 square meters. The factory operates under factory license No. (01-01-00005) issued by the Saudi Food and Drug Authority. The following table shows details of the production capacity of the Avalon Factory (1) and the developments that have occurred since its establishment:

Table No. (59): Production Capacity of Avalon Factory (1)

Avalon Factory (1)						
Year	Event/Change	Annual production capacity				
		Cream production lines	Skin and cosmetics production lines	Liquid pharmaceutical production lines	Solid pharmaceutical production lines*	Disinfectants production lines
2003G	Production capacity when establishing the factory	6,100,000 Tubes	-	4,000,000 Box	-	3,500,000 Box
Change in annual production capacity						
2007G	Increasing the production capacity of liquid medicine production lines	-	-	9,200,000 Box	-	-
2010G	Increasing the production capacity of cream production lines	12,900,000 Tubes	-	-	-	-
2013G	Addition of solid pharmaceutical production lines	-	-	-	8,100,000 Strips	-
2015G	Transferring disinfectant production to Avalon factory (3)	-	-	-	-	(-3,500,000) Box
2020G	Adding production lines for skin and cosmetic products	-	3,400,000 Tubes	-	-	-
Current production capacity						
	Current production capacity of Avalon plant (1)	19,000,000 Tubes	3,400,000 Tubes	13,200,000 Box	8,100,000 Strips	-

Source: Avalon Pharma Company

* The strip includes a certain number of pills, and their number in one strip varies depending on the type of product and duration of use.

Note: The production capacity of factories is based on 30 working days per month and 20 working hours per day.

Avalon Factory (2) and Avalon Factory (3):

In 2015, the Company established a new factory, «**Avalon Factory (3),**» with a building area of 836 square meters and including lines for producing disinfectants, in addition to a warehouse next to the factory, «**Avalon Warehouse (2),**» to store raw materials and final products after manufacturing. Both are located on owned land. The Company's office is located within the Riyadh Water and Energy City, with an area of 5,322 square meters. The factory operates under factory license No. (01-01-00009) issued by the Saudi Food and Drug Authority.

During the year 2022G, the Company completed the construction of a new main warehouse «**Avalon Warehouse (4)**» with a building area of 5,137 square meters next to Avalon Warehouse (2) and Avalon Factory (3), and the Avalon Warehouse (2) was converted into a new factory called «**Avalon Factory (2)**» with new production lines (representing an expansion of the Avalon Factory (3) facilities on a building area of 2,064 square meters), bringing the total area of the two factories to 2,900 square meters.

In 2022, the Company also completed the construction of the Avalon Factory (2), adding new production lines for creams, liquid medicines, and solid medicines, which were supplied by Italian, German, and Asian companies, with the aim of increasing the Company's overall manufacturing production capacity. The construction of the Avalon Factory (2) has been completed, and it is expected that commercial production of the factory will begin during the second quarter of 2024G. The following table shows details of the production capacity of Avalon Factory (2):

Table No. (60): Production Capacity of Avalon Factory (2)

Avalon Factory (2)						
Year	Event/Change	Annual production capacity				
		Cream production lines	Skin and cosmetics production lines	Liquid pharmaceutical production lines	Solid pharmaceutical production lines	Disinfectants production lines
2022G	Production capacity when establishing the factory	21,760,000 Tubes	-	16,320,000 Box	27,200,000 Strips	-

Source: Avalon Pharma Company

* The strip includes a certain number of pills, and their number in one strip varies depending on the type of product and duration of use.

Note: The production capacity of factories is based on 30 working days per month and 20 working hours per day.

The following table shows details of the production capacity of the Avalon Factory (3) and the developments that have occurred:

Table No. (61): Production Capacity of Avalon Factory (3)

Avalon Factory (3)						
Year	Event/Change	Annual production capacity				
		Cream production lines	Skin and cosmetics production lines	Liquid pharmaceutical production lines	Solid pharmaceutical production lines	Disinfectants production lines
2015G	Production capacity when establishing the factory	-	-	-	-	11,750,000 Box
Change in annual production capacity						
2020G	Increasing the production capacity of disinfectant production lines	-	-	-	-	2,937,600 Box
Current production capacity						
	Current production capacity of Avalon plant (3)	-	-	-	-	14,687,600 Box

Source: Avalon Pharma Company

The following table shows the total annual production capacity of the Company's factories per production line:

Table No. (62): Total annual production capacity of the Company's factories

Total annual production capacity					
	Cream production lines	Skin and cosmetics production lines	Liquid pharmaceutical production lines	Solid pharmaceutical production lines **	Disinfectants production lines
Avalon Factory (1)	19,000,000 Tubes	3,400,000 Tubes	13,200,000 Box	8,100,000 Strips	-
Avalon Factory (2)*	21,760,000 Tubes	-	16,320,000 Box	27,200,000 Strips	-
Avalon Factory (3)	-	-	-	-	14,687,600 Box
Total annual production capacity of factories	40,760,000 Tubes	3,400,000 Tubes	29,520,000 Box	35,300,000 Strips	14,687,600 Box

Source: Avalon Pharma Company

* Commercial production of Avalon Plant (2) is expected to begin during the second quarter of 2024.

** The strip includes a certain number of pills, and their number in one strip varies depending on the type of product and duration of use.

Note: The production capacity of factories is based on 30 working days per month and 20 working hours per day.

The total productive capacity of the Company's factories, according to production lines, during 2020, 2021, 2022, and the first half of 2023:

Table No. (63): The total productive capacity utilized by the Company's Factories

Products	2020G		2021G		2022G		The first half of 2023G	
	Actual production quantity	Percentage of utilized capacity *	Actual production quantity	Percentage of utilized capacity *	Actual production quantity	Percentage of utilized capacity *	Actual production quantity	Percentage of utilized capacity *
Creams	13,689,865 Tube	72.1%	13,079,294 Tube	68.8%	14,254,154 Tube	75.0%	5,249,705 Tube	27.63%
Skin and cosmetic products	853,932 Tupe	25.1%	1,178,588 Tube	34.7%	1,995,010 Tube	58.7%	1,318,509 Tube	38.78%
Liquid medications	8,210,294 Box	62.2%	8,781,670 Box	66.5%	12,667,530 Box	96.0%	6,432,417 Box	48.73%
Solid medications**	4,887,133 Stripe	60.3%	6,660,096 Stripe	82.2%	5,565,785 Stripe	68.7%	2,620,089 Stripe	32.35%
Disinfectants	11,388,220 Box	77.5%	6,391,091 Box	43.5%	6,684,829 Box	45.5%	2,193,403 Box	14.93%

Source: Avalon Pharma Company

* The percentage of utilized production capacity is based on the production capacity before the establishment of the Avalon Factory (2), which was established during the year 2022G and is expected to begin commercial production during the second quarter of 2024G.

** The strip includes a certain number of pills, and their number in one strip varies depending on the type of product and duration of use.

Note: The production capacity of factories is based on 30 working days per month and 20 working hours per day.

4-17-1 Description of production process and its phases

Avalon Pharma factories have advanced and modern production lines for manufacturing creams, skin and cosmetic products, liquid and solid medicines, and disinfectants. They are also equipped with laboratories and quality control departments that work with an integrated and connected approach to manage production processes and monitor all stages of manufacturing to ensure accuracy and speed of production and high quality of the final products. Production stages generally include the following stages:

1. The required raw materials are determined and prepared according to each preparation or final product.
2. The laboratory administration withdraws samples of raw materials for analysis and to ensure their quality and compliance with approved pharmaceutical and health standards and specifications.
3. The raw materials are weighed according to the concentrations, compositions and standards specified for each product and then sent to the preparation department in the factory for the mixing process.
4. Machines and machinery are adjusted within the production line to begin the mixing and preparation process.
5. During the production process, the materials used are added in multiple stages, depending on the situation.
6. After completing the manufacturing process, the laboratory department withdraws samples of the manufactured materials for analysis and to ensure the quality of the product.
7. After the product is approved by the laboratory, the manufactured products are packed in their final form through devices and machinery designated for this purpose.
8. The final packaging and inspection of the products takes place, and then the final products are sent to the Company's designated warehouses.

4-17-2 Factories' need for water, diesel, and electricity

During production operations, Avalon Pharma factories depend on the availability of water, diesel, and electricity, as their annual need is as follows:

- The Company's factories need between 35 to 40 thousand cubic liters of water annually, which the Company obtains from the National Water Company.
- The Company's factories need between 700 to 800 thousand liters of diesel annually, which the Company obtains from local sources.
- The Company's factories need between 6 to 7 million kilowatt-hours of electricity annually, which the Company obtains from the Saudi Electricity Company.

4-17-3 Safety and security

In an effort to provide a safe work environment in its factories, Avalon Pharma continuously spreads awareness of safety and security systems in the work environment, improves its behaviors, and evaluates the risks present in the work environment to combat them. The Company has also equipped the factories in accordance with all requirements of the safety systems and regulations applied in the Kingdom:

- Equipping factories with early warning devices and systems and monitoring their work periodically.
- Installing networks of automatic sprinkler and extinguishing systems, developing evacuation plans in the factory and warehouses, and carrying out periodic evacuation drills.
- Providing safety and security equipment for factory and warehouse employees and monitoring their commitment to using it on an ongoing basis.
- Providing a designated, safe place for flammable materials.
- Appointing work teams for first aid and work teams for emergency response plans, and training employees on them.
- Conducting periodic training courses for employees on several topics related to safety and security.
- Submitting periodic reports on the development of safety and security policies and adherence to them.

4-18 Quality control

Avalon Pharma pays strict attention to the quality and type of its products. The Company's quality control process begins from the stage of identifying the best licensed suppliers of various raw materials, including chemicals, active ingredients, and packaging materials and supplies, and examines them carefully to ensure their compliance with the required and specified conditions and standards before ordering them.

The Company also has a special quality control department that follows up and monitors the implementation of policies and standards set for its employees to continuously adhere to them and ensure the effectiveness of quality control. The Company establishes systems, controls and training programs for employees in this regard.

The Company has also adopted a quality control policy through continuous testing of raw materials and finished products. The laboratories located within the factory facilities are equipped with modern equipment and devices that have high analytical techniques. In addition, the Company developed a quality guide for each test and each device, and organized the analysis of raw materials in the Company's laboratories upon receipt to ensure their conformity with approved health standards and specifications before using them in production operations, in addition to scheduling periodic tours according to a specific timetable to ensure that work continues in accordance with Standards required as part of the Company's internal control.

4-18-1 ISO certificates

The Company has obtained four ISO certificates for adherence to international quality standards regarding production and distribution processes and systems for its products. The following table shows the details of the ISO certificates:

Table No. (64): ISO certificates

Company	Certificate No.	Certificate Date	Certificate Expiry Date
Middle East Pharmaceutical Industries Company	(ISO 9001:2015)	04/10/2021G	03/10/2024G
Middle East Pharmaceutical Industries Company	(ISO 13485:2016)	18/02/2022G	17/02/2025G
Middle East Pharmaceutical Industries Company	(ISO 14001:2015)	04/10/2021G	03/10/2024G
Middle East Pharmaceutical Industries Company	(ISO 45001:2018)	04/10/2021G	03/10/2024G

Source: Avalon Pharma Company

4-18-2 Scientific Office

The Scientific Office, Regulatory, Governmental Affairs and Compliance Department is one of the main departments in Avalon Pharma, and it holds a «**Scientific Office**» license from the Saudi Food and Drug Authority. This department is responsible for several tasks and responsibilities directly related to monitoring commitment to quality and to health, regulatory and legal requirements for the business of pharmaceutical products and preparations manufactured by the Company, the most important of which are:

- Ensuring that the quality of the Company's products that are traded and marketed in the Saudi market is compliant and maintained, in coordination with the operations and factories departments.
- Commitment to implementing the regulations and requirements of the Food and Drug Authority, the Ministry of Health, and other local and international bodies.
- Commitment to the laws and regulations of transparency and disclosure of all matters that are directly related to the Food and Drug Authority, NUPCO, Ministry of Health, Ministry of Industry, Local Content and Government Procurement Authority and other government agencies, and applying those regulations to all departments of the Company.
- Following up on the availability of the Company's products in the Saudi and foreign markets without interruption.
- Ensuring legality of commercial contracts and availability of all regulatory requirements with suppliers and customers.
- Ensuring that any of the Company's products are not traded unless it is registered with the Food and Drug Authority and follow up on renewing the certificates of registered products.
- Ensuring that no modifications are made to the products before obtaining official approvals from the relevant government agencies, especially the Saudi Food and Drug Authority.
- Submitting new product files to the Food and Drug Authority and all other relevant government agencies.

4-19 Raw Materials

The Company meets the needs of its factories for raw materials through several local and international companies outside the Kingdom of Saudi Arabia. Raw materials generally include chemicals, basic materials, and active ingredients that are used in making medicines and preparations, in addition to packaging materials and supplies, boxes (Packages), containers, and others (see Section (4-20) «**Main Suppliers**» from this Prospectus).

Through the department of the Scientific Office, Regulatory, Governmental Affairs and Compliance, the Company monitors the availability of its products in the Saudi and foreign markets without interruption, and provides a stock sufficient for a period of no less than (6) months for medicines. Therefore, the availability of raw materials, especially the active ingredients, is also monitored in line with the stock adequacy strategy and the established procurement policy. The department of the Scientific Office, Regulatory, Governmental Affairs and Compliance also works to ensure full compliance with the implementation of the regulations and requirements of the Food and Drug Authority, Ministry of Health and other local and international bodies with regard to raw materials and finished products, and it seeks to maintain a wide list of suppliers and maintain a good relationship with them (see Section (4-18-2) «Scientific Office» of this Prospectus).

Through the procurement policy established by the Company, the types of the required raw materials and their quantities are determined based on periodic purchasing plans specified by the Company's production department, where they are requested from suppliers in advance and for a period of no less than (6) six months. This procurement policy ensures the provision of materials on time and the presence of alternative suppliers in the event that these materials, or some of them, are not available from one of the suppliers. It also helps the Company obtain them at pre-determined prices without being affected by price fluctuations.

The Company obtains raw materials from various sources in the Kingdom of Saudi Arabia, European countries, the United States of America, China, and others. Among the most important raw materials that the Company imports are the active ingredients that are used in the pharmaceutical industry, such as the active ingredients «Avogain» and «Minoxidil» used in Avogain products, the active ingredient «Pump Shenzhen bona» used in Rhinaze and Avocom products, and other materials such as «Ethanol» used in sterilizers, «Cetostearyl» used in cream products, «Propylene Glycol» used in a large number of health products and medicines, and others. As for packaging supplies, boxes, packages, etc., the Company obtains most of them from local companies and merchants in the Kingdom.

4-20 Main suppliers

The Company meets the needs of its factories for raw materials through several local and international companies outside the Kingdom of Saudi Arabia. Raw materials generally include pharmaceutical chemicals and basic active ingredients that are used in making medicines and preparations, in addition to packaging materials, boxes (packages), containers, etc. The following table shows the details of transactions with the Company's five main suppliers during the years 2020, 2021, 2022, and the first half of 2023G:

Table No. (65): Dealings and transactions with major suppliers

Supplier	Raw Materials	Country of Origin	Dealing Value (SAR)	Percentage from Total
Fiscal year ended on December 31, 2020G				
1 Supplier (1)	Pharmaceutical materials and active ingredients	Saudi Arabia	14,627,655	13.80%
2 Supplier (2)	Pharmaceutical materials and active ingredients	Saudi Arabia	8,047,336	7.59%
3 Supplier (3)	Packaging materials, boxes and packages	China	5,278,835	4.98%
4 Supplier (4)	Packaging materials, boxes and packages	Saudi Arabia	4,952,546	4.67%
5 Supplier (5)	Packaging materials, boxes and packages	Saudi Arabia	3,843,327	3.62%
Other suppliers	-	-	69,284,138	65.34%
Total			106,033,837	100.00%

Supplier	Raw Materials	Country of Origin	Dealing Value (SAR)	Percentage from Total	
Fiscal year ended on December 31, 2021G					
1	Supplier (1)	Packaging materials, boxes and packages	Saudi Arabia	5,715,940	9.50%
2	Supplier (2)	Pharmaceutical materials and active ingredients	China	3,545,071	5.89%
3	Supplier (3)	Packaging materials, boxes and packages	Saudi Arabia	3,020,857	5.02%
4	Supplier (4)	Pharmaceutical materials and active ingredients	Belgium	2,802,472	4.66%
5	Supplier (5)	Pharmaceutical materials and active ingredients	India	2,336,872	3.88%
	Other suppliers	-	-	42,761,327	71.05%
	Total			60,182,539	100.00%
Fiscal year ended on December 31, 2022G					
1	Supplier (1)	Packaging materials, boxes and packages	Saudi Arabia	9,470,096	9.60%
2	Supplier (2)	Pharmaceutical materials and active ingredients	Belgium	6,158,810	6.24%
3	Supplier (3)	Packaging materials, boxes and packages	Jordan	3,780,155	3.83%
4	Supplier (4)	Packaging materials, boxes and packages	Saudi Arabia	3,711,179	3.76%
5	Supplier (5)	Pharmaceutical materials and active ingredients	Switzerland	3,517,224	3.57%
	Other suppliers	-	-	72,009,848	73.00%
	Total			98,647,312	100.00%
Fiscal year ended on Six-month period June 30, 2023G					
1	Supplier (1)	Packaging materials, boxes and packages	Jordan	3,921,982	8.68%
2	Supplier (2)	Packaging materials, boxes and packages	Saudi Arabia	3,608,661	7.98%
3	Supplier (3)	Pharmaceutical materials and active ingredients	Belgium	3,378,058	7.47%
4	Supplier (4)	Packaging materials, boxes and packages	UK	1,660,353	3.67%
5	Supplier (5)	Pharmaceutical materials and active ingredients	China	1,529,776	3.39%
	Other suppliers	-	-	31,097,763	68.81%
	Total			45,196,593	100.00%

Source: Avalon Pharma Company

4-21 Research and development

Research and Development Department at Avalon Pharma enjoys great attention due to the importance of its role and its fundamental contribution to the growth and development of the Company's business. The Company creates financial allocations on an annual basis to support research and development work and raise its ability to register and launch drugs and pharmaceutical preparations on an ongoing basis. The Company's research and development strategy includes developing distinctive products, expanding into new therapeutic areas, and adding innovative formulations based on the needs of the local and export markets.

In the early days of the Company upon its inception, the Research and Development Department worked on developing cosmetics, health care products, herbs, and sterilizers, and then developed generic prescription and non-prescription medications (including tablets, capsules, ointments, creams, and liquid medications). It is also currently seeking to add other pharmaceutical forms, such as eye drops and injections along with future expansion to develop specific products such as anti-cancer products.

Over the past years, the Company has invested extensively in research and development work, with expenditures amounting to 6.5, 9.1, and 10.3 million Saudi riyals during the years 2020, 2021, and 2022G, respectively. It has also made a provision of more than 20 million Saudi riyals for research and development work during the year 2023G .

Through this department, the Company has the ability to develop between 10 to 15 products annually. Since its incorporation, the Company has registered 113 cosmetic products, 65 health care and herbal products, 74 pharmaceutical products, and 9 products that are classified as medical devices with the Saudi Food and Drug Authority. The Company has also registered a large number of its products in the countries to which it exports in the GCC, Middle East and Africa, where 116 cosmetic products, 29 products classified as medical devices, and 128 pharmaceutical products, health care products and herbs have been approved. In addition, work is underway to register 19 new products with the Food and Drug Authority, including 4 skin medicines, 4 respiratory medicines, 1 digestive system medicine, 1 musculoskeletal medicine, and 9 various medicines within the Company's other therapeutic categories, as the registration period generally ranges between 12 months to 18 months.

Following is an overview of Avalon Pharma's research and development work:

- Keeping up with published pharmaceutical research and publications, preparing accurate reports on reference products, and conducting physical and chemical analyses and studies of reference products.
- Developing and design experiments, laboratory analysis methods, and product stability studies to ensure that the product meets safety, effectiveness, and quality requirements.
- Developing prototypes of products in accordance with international guidelines, and subjecting them to a study of stability in multiple conditions. Samples are also reviewed at specific frequencies to evaluate their stability according to pre-determined specifications.
- Conducting clinical studies (such as bioequivalence studies) according to the product registration requirements, as the studies are conducted in centers accredited by the Gulf Cooperation Council countries and the Food and Drug Authority. These studies are essential to ensure that the developed product is identical to the reference product, including its interaction in the body by ensuring that it meets bioequivalence criteria for various pharmacokinetics that prove the safety and effectiveness of the product under applicable guidelines. Some other studies are also conducted according to the registration requirements for the products.
- Coordinating and preparing unified registration files in accordance with the requirements for registering medicines for human use.
- Verifying intellectual property and patent expiration dates by researching materials published online or in cooperation with specialized centers and agencies.

Avalon Pharma's R&D Section falls under the Operations Department, and includes more than 25 specialized employees of pharmacists, chemists, and scientists. The R&D team includes the following sub-teams, which work in perfect coordination to complete their tasks according to the specified timelines:

- **Product Formulation and Development Team:** It evaluates new products, determines their feasibility and manufacturing requirements, develops the composition of new products and studies their stability, organizes clinical studies such as bioequivalence studies, reviews study protocols, reviews studies comparing solubility with reference drugs, and monitors various processes while conducting clinical studies in approved centers. In addition, the team identifies sources of supply of active and inactive ingredients for new products in cooperation with supply chains, prepares reports for submission to regulatory authorities, responds to inquiries raised by regulatory authorities to

approve the registration of new products, and helps solve problems in ongoing commercial production operations in cooperation with other departments, evaluates and approves alternative sources of raw materials to ensure continuity of supply and support production operations.

- **Packaging Development Team:** This team selects appropriate packaging materials to maintain the quality of products throughout their useful life (validity periods), supports commercial product packaging activities and solves problems encountered to ensure smooth operations. It also coordinates with other departments to develop product designs and pharmaceutical publications for all markets in which the Company operates, and develops specifications and analysis methods for packaging materials in order to ensure and control their quality.
- **Analytical Methods Development Team:** This team develops methods for examining raw materials (active pharmaceutical ingredients) and finished products. The analytical methods developed are subject to a comprehensive verification process that complies with the requirements of international standards. Key drug files are also studied to ensure compliance and that the best raw materials are used in product development. Solubility comparison studies for formulations, degradation studies, and impurity characterization are all considered an integral part of the product development process and analytical activities are documented in the registration files submitted to regulatory authorities.
- **Documentation and Review Team:** The team coordinates with other teams in preparing and reviewing coordinated and scientifically sound regulatory reports for timely delivery to the Food and Drug Authority and other GCC and international regulatory authorities in export countries.

4-22 Clients

Since its incorporation, Avalon Pharma has been able to develop good and strong relationships with its customers, and has proven its ability to gain their trust through good dealing and service, constantly improving the quality of products and innovative therapeutic solutions, and developing a wide portfolio that suits the requirements of the market and the final consumer and keeps pace with the development of the health care sector.

The Company's clients include companies, health institutions, and hospitals in the government sector, in addition to pharmacies, pharmacy chains, hospitals, clinics, and hypermarkets in the private sector.

The Company has concluded a number of sales contracts in the health sector in the Kingdom to supply it with medicines and pharmaceutical preparations, the most important of which are contracts with the National Company for the Unified Purchase of Medicines, Medical Devices and Supplies «Nupco» and other private health companies and institutions.

(See Section (12-6-2) «Summary of the Company's Essential Contracts» of this Prospectus)

The following table shows the company's ten most important existing sales contracts in terms of value:

Table No. (66): The most important existing sales contracts

	Contract	Summary of Contract	Contract Amount (SAR)	Contract Date
1	Sales contract 1	Tender for securing medicines for government health agencies	24,015,620	2023G
2	Sales contract 2	Sales contract for medicines and health products	24,000,000	2023G
3	Sales contract 3	Tender for securing medicines for government health agencies	19,552,119	2023G
4	Sales contract 4	Sales contract for medicines and health products	14,000,000	2023G
5	Sales contract 5	Sales contract for medicines and health products	14,000,000	2023G
6	Sales contract 6	Sales contract for medicines and health products	8,000,000	2022G
7	Sales contract 7	Sales contract for medicines and health products	6,800,000	2023G
8	Sales contract 8	Sales contract for medicines and health products	6,000,000	2023G
9	Sales contract 9	Sales contract for medicines and health products	5,300,000	2022G
10	Sales contract 10	Sales contract for medicines and health products	4,000,000	2022G

Source: Avalon Pharma Company

Avalon Pharma participates in pharmaceutical tenders affiliated with the National Unified Purchasing Company for Medicines, Devices and Medical Supplies (NUPCO) through the «Wasfaty» program, and its sales contracts with other clients depend on its ability to market its products on an ongoing basis to health practitioners, hospital administrations, pharmacies, and other clients.

With regard to medicines, their pricing is approved by the Food and Drug Authority (see Section. (2-1-30) «Risks related to the pricing policy of pharmaceutical products» of this Prospectus). As for other health and cosmetic items, pricing is according to what the Company deems appropriate.

4-23 Outline of revenues

The Company achieves its revenues by entering into government tenders and executing sales contracts in the government and private sectors, in addition to purchase orders for a number of companies, health institutions, pharmacies and hospitals in the government and private sectors. With regard to export markets, the Company has concluded several distribution agreements with a number of international companies, under which they obtain the right to distribute and market Avalon Pharma products outside the Kingdom of Saudi Arabia (see Section (12-6-2) «Summary of the Company's Essential Contracts» of this Prospectus).

The following table shows the Company's revenues according to therapeutic categories during the years 2020G, 2021G, 2022G, and the first half of 2023G:

Table No. (67): Revenues by product categories

Category	Fiscal year ended on 31 December 2020 (SAR)	Percentage (%) from total	Fiscal year ended on 31 December 2021 (SAR)	Percentage (%) from total	Fiscal year ended on 31 December 2022(SAR)	Percentage (%) from total	6 months period ended on 30 June 2023 (SAR)	Percentage (%) from total
Dermatologicals, and skin care products	105,741,769	35.05%	143,041,775	49.80%	150,254,923	49.64%	82,294,722	55.41%
Respiratory medications	35,381,953	11.73%	49,539,467	17.25%	71,996,062	23.79%	29,638,142	19.96%
Nervous system medications	22,361,562	7.42%	27,466,669	9.56%	26,020,995	8.60%	12,237,077	8.24%
Digestive system medications	6,824,426	2.26%	11,303,999	3.94%	13,463,349	4.45%	6,823,735	4.59%
Musculoskeletal system medications	10,776,645	3.57%	14,194,262	4.94%	11,620,794	3.84%	6,827,004	4.60%
Other medications in various therapeutic classes	120,573,870	39.97%	41,675,897	14.51%	29,306,095	9.68%	10,698,342	7.20%
Total	301,660,225	100.00%	287,222,069	100.00%	302,662,218	100.00%	148,519,022	100.00%

Source: Avalon Pharma Company

The following table shows distribution of the Company's revenues per business category during the years 2020G, 2021G, 2022G, and the first half of 2023G:

Table No. (68): Revenues by business sector

	Fiscal year ended on 31 December 2020 (SAR)	Percentage (%) from total	Fiscal year ended on 31 December 2021 (SAR)	Percentage (%) from total	Fiscal year ended on 31 December 2022(SAR)	Percentage (%) from total	6 months period ended on 30 June 2023 (SAR)	Percentage (%) from total
Revenue from retail customers	190,917,523	63.29%	194,141,569	67.60%	207,967,773	68.71%	103,741,363	69.85%
Revenues from government sector clients	88,160,264	29.22%	65,638,989	22.85%	68,583,501	22.66%	33,863,317	22.80%
Revenue from export clients	22,582,438	7.49%	27,441,511	9.55%	26,110,944	8.63%	10,914,342	7.35%
Total	301,660,225	100.00%	287,222,069	100.00%	302,662,218	100.00%	148,519,022	100.00%

Source: Avalon Pharma Company

The following table shows the Company's revenues from the biggest ten clients during the years 2020G, 2021G, 2022G, and the first half of 2023G:

Table No. (69): Revenues by main customers

	Client	Revenue (SAR)	Percentage from the total
Fiscal year ended on 31 December 2020G			
1	Client 1	70,250,056	23.29%
2	Client 2	37,532,701	12.44%
3	Client 3	21,322,960	7.07%
4	Client 4	5,281,033	1.75%
5	Client 5	4,362,000	1.45%
6	Client 6	4,203,985	1.39%
7	Client 7	4,068,691	1.35%
8	Client 8	4,010,664	1.33%
9	Client 9	4,007,492	1.33%
10	Client 10	3,559,394	1.18%
	Other clients	143,061,249	47.42%
	Total	301,660,225	100.00%
Fiscal year ended on 31 December 2021G			
1	Client 1	55,031,466	19.16%
2	Client 2	32,440,715	11.30%
3	Client 3	31,102,568	10.83%
4	Client 4	6,455,027	2.25%
5	Client 5	6,034,827	2.10%
6	Client 6	4,866,717	1.69%
7	Client 7	4,572,021	1.59%
8	Client 8	3,994,142	1.39%
9	Client 9	3,336,033	1.16%
10	Client 10	3,285,586	1.14%
	Other clients	136,102,967	47.39%
	Total	287,222,069	100.00%

	Client	Revenue (SAR)	Percentage from the total
Fiscal year ended on 31 December 2022G			
1	Client 1	54,988,562	18.17%
2	Client 2	31,536,548	10.42%
3	Client 3	27,610,050	9.12%
4	Client 4	11,208,660	3.70%
5	Client 5	9,176,994	3.03%
6	Client 6	7,234,662	2.39%
7	Client 7	6,293,307	2.08%
8	Client 8	5,295,018	1.75%
9	Client 9	5,082,425	1.68%
10	Client 10	4,165,124	1.38%
	Other clients	140,070,868	46.28%
	Total	302,662,218	100.00%
Fiscal year ended on Six-month period June 30, 2023G			
1	Client 1	21,647,489	14.58%
2	Client 2	15,674,826	10.55%
3	Client 3	12,502,607	8.42%
4	Client 4	9,870,751	6.65%
5	Client 5	6,370,064	4.29%
6	Client 6	5,713,790	3.85%
7	Client 7	4,918,134	3.31%
8	Client 8	4,755,974	3.20%
9	Client 9	3,933,081	2.65%
10	Client 10	3,704,437	2.49%
	Other clients	59,427,869	40.01%
	Total	148,519,022	100.00%

Source: Avalon Pharma Company

(See Section No. (6-2-1-1) «Revenues» of this prospectus).

4-24 Export Clients

The Company has concluded (10) ten agreements with a number of companies in the GCC states, Middle East and Africa, through which it gives these companies the right to sell, distribute and market Avalon Pharma's products (see Section (12-6-2) «**Summary of the Company's Essential Contracts**» of this Prospectus). The following table shows the location of distributors outside the Kingdom (export customers) with whom the Company deals:

Table No. (70): Export clients

Distributing Companies outside KSA	Country
Distributor 1	Kuwait
Distributor 2	The United Arab Emirates
Distributor 3	Jordan
Distributor 4	Iraq
Distributor 5	Yemen
Distributor 6	Bahrain
Distributor 7	Lebanon
Distributor 8	Egypt
Distributor 9	Sudan
Distributor 10	Libya

Source: Avalon Pharma Company

The following table shows details of revenues from export customers during the years 2020, 2021, 2022G, and the first half of 2023G:

Table No. (71): Revenues from export customers

Distributor	Value of Transactions (Dealings) (SAR)	Percentage (%) from Total
Fiscal year ended on 31 December 2020G		
Distributor 1	5,281,032	23.39%
Distributor 2	3,153,545	13.96%
Distributor 3	2,723,124	12.06%
Distributor 4	2,485,389	11.01%
Distributor 5	1,893,215	8.38%
Other Distributors	7,046,133	31.20%
Total	22,582,438	100.00%
Fiscal year ended on 31 December 2021G		
Distributor 1	4,866,719	17.73%
Distributor 2	3,213,299	11.71%
Distributor 3	2,840,277	10.35%
Distributor 4	2,786,958	10.16%
Distributor 5	2,647,190	9.65%
Other Distributors	11,087,068	40.40%
Total	27,441,511	100.00%
Fiscal year ended on 31 December 2022G		
Distributor 1	5,295,017	20.28%
Distributor 2	4,128,201	15.81%
Distributor 3	3,847,571	14.74%
Distributor 4	3,178,826	12.17%
Distributor 5	3,058,131	11.71%
Other Distributors	6,603,198	25.29%
Total	26,110,944	100.00%

Distributor	Value of Transactions (Dealings) (SAR)	Percentage (%) from Total
Fiscal year ended on Six-month period June 30, 2023G		
Distributor 1	4,755,974	43.58%
Distributor 2	3,933,081	36.04%
Distributor 3	913,740	8.37%
Distributor 4	531,938	4.87%
Distributor 5	456,500	4.18%
Other Distributors	323,109	2.96%
Total	10,914,342	100.00%

Source: Avalon Pharma Company

4-25 Storage and shipping

The storage process of medicines and health products, both raw materials and finished, requires the presence of qualified and equipped warehouses to maintain the quality of the goods stored in them. The Company has allocated part of the land area on which it established Avalon Factory (2) and Avalon Factory (3) in the Riyadh Water and Energy City to build its main central warehouse, «**Avalon Warehouse (4),**» with a built-up area of 5,137 square meters. The warehouse was completed in 2022G, and is equipped with the latest storage systems and methods that facilitate the process of transporting and flowing goods, and devices to control and stabilize temperatures, humidity levels, and backup electrical generators in case of sudden power outages.

The Company has also rented (3) three other warehouses qualified and equipped to store medicines and health products of different sizes in Riyadh, Jeddah and Dammam, which help the Company in the process of effective distribution around the cities of the Kingdom and related logistical activities (see Section (12-7). «**Properties owned and leased by the Company**» of this Prospectus).

The table shows the warehouse locations and their areas:

Table No. (72): Company warehouses

	Warehouse	City	Area (m2)
1	Main Warehouse 1 (Avalon Warehouse (4)) - Company-owned	Riyadh	5,137 m2
2	Warehouse 2 - rented	Riyadh	2,400 m2
3	Warehouse 3 - rented	Jeddah	1,236 m2
4	Warehouse 4 - rented	Dammam	300 m2

Source: Avalon Pharma Company

Regarding the operations of shipping and distributing goods, they are carried out directly by the Company, as it delivers the sold products to customers around the Kingdom through its fleet of 14 equipped trucks. The Company also sometimes uses large transport trucks that it rents when needed to deliver large orders.

4-26 Business interruption

The Company's Board of Directors declares that there has been no interruption in the business of the Issuer or any of its subsidiaries that could affect or have significantly affected the financial condition during the past (12) months.

4-27 Employees and Saudization

4-27-1 Employees

The number of employees at Avalon Pharma Company reached (541) employees inside the Kingdom and (9) employees in its branch in the United Arab Emirates as of 03/09/2023G. The Company does not have any employees working for its subsidiaries outside the Kingdom of Saudi Arabia, and all employees are in the Kingdom is currently registered under the Company file and three sub-files of its branches with the General Organization for Social Insurance. The following table shows the numbers of employees, Saudization rates, and the band of the Company:

Table No. (73): Number of employees in the Company

	As of 03/09/2023			Band, category and size
	Number	Percentage		
Middle East Pharmaceutical Industries Company Commercial Registration No. (1010150538)	Saudis	120	30.93%	Average green Medium size (Class C)
	Non-Saudis	268	69.07%	
	Total	388	100.00%	
Branch - Middle East Distribution - Riyadh Commercial Registration No. (1010175025)	Saudis	38	26.95%	Average green Medium size (Class B)
	Non-Saudis	103	73.05%	
	Total	141	100.00%	
Branch - Middle East Distribution - Jeddah Commercial Registration No. (4030161826)	Saudis	1	33.33%	Small green Small size (Class A)
	Non-Saudis	2	66.67%	
	Total	3	100.00%	
Total in the Kingdom	Saudis	159	29.89%	-
	Non-Saudis	373	70.11%	
	Total	532	100.00%	
Employees in the UAE branch	9			-
Total	541			-

Source: Avalon Pharma Company

The following table shows developments in the number of employees according to the Company's departments during the years 2020, 2021, 2022, and as of June 30, 2023G,

Table No. (74): Number of employees per department

Department	2020G			2021G			2022G			As of 06/30/2023G			As of 03/09/2023G		
	Saudi	Non-Saudi	Total	Saudi	Non-Saudi	Total	Saudi	Non-Saudi	Total	Saudi	Non-Saudi	Total	Saudi	Non-Saudi	Total
Executive Management	4	4	8	4	10	14	4	4	8	3	2	5	2	2	4
Operations Department	28	212	240	25	232	257	28	243	271	26	260	286	24	246	270
Financial Department	14	26	40	15	25	40	16	27	43	15	26	41	15	27	42
Medical Affairs Department	2	0	2	3	0	3	3	0	3	3	0	3	3	0	3

Department	2020G			2021G			2022G			As of 06/30/2023G			As of 03/09/2023G		
	Saudi	Non-Saudi	Total	Saudi	Non-Saudi	Total	Saudi	Non-Saudi	Total	Saudi	Non-Saudi	Total	Saudi	Non-Saudi	Total
Scientific office, Regulatory, Government affairs and Compliance Department	3	2	5	3	2	5	2	2	4	4	1	5	4	1	5
Administrative Affairs Department	14	4	18	14	5	19	25	5	30	23	5	28	23	5	28
Administrative Affairs Department	4	1	5	4	1	5	3	2	5	6	0	6	7	0	7
Marketing Department	10	8	18	10	8	18	10	8	18	11	8	19	8	9	17
Sales Department	39	76	115	64	71	135	66	71	137	64	60	124	71	75	146
Internal Audit Department	0	0	0	0	0	0	1	0	1	0	1	1	0	1	1
Compliance Department	0	0	0	0	0	0	0	0	0	1	0	1	1	0	1
Business Development Department	0	1	1	0	2	2	0	4	4	6	0	6	0	6	6
Information Technology Department	0	5	5	1	5	6	1	8	9	1	10	11	1	10	11
Total	118	339	457	143	361	504	159	374	533	163	373	536	159	382	541

Source: Avalon Pharma Company

4-27-2 Saudization

The Saudization program «**Nitaqat**» was approved pursuant to the Resolution of His Excellency the Minister of Labor No. (4040), dated 12/10/1432H (corresponding to 10/09/2011G), based on Council of Ministers Resolution No. (50) dated 21/05/1415H (corresponding to the 27/10/1994G). Nitaqat Program was implemented on 12/10/1432H (corresponding to 10/09/2011G). In implementation of Ministerial Resolution No. (182495) dated 15/11/1442H (corresponding to 25/06/2021G), Nitaqat program was developed into the «**Developed Nitaqat Program**», which adopted the integration of small and micro economic activities and included them with the rest of the economic activities and presented a fixed localization plan to improve the relationship between the number of employees and the percentage of nationalization in organization.

The Ministry of Human Resources and Social Development implemented the program to encourage organizations to employ Saudi citizens. Through the program, the performance of any company is evaluated based on specific categories «**bands**» that include: the platinum band, the green band (divided into subcategories, i.e.: low category, medium category, and high category), and the red band. Companies that are within the platinum or green bands are considered to have fulfilled the Saudization requirements, and are therefore entitled to a number of benefits, such as enabling non-Saudi workers to obtain and renew work visas or change their professions (with the exception of professions designated exclusively for Saudi citizens). As for companies that are in the red band, they are considered to have violated Saudization requirements, and may be subject to some penal measures, such as limiting their ability to renew work visas for non-Saudi employees or obtain new work visas.

It is worth noting that the Company has been classified within the medium green range as of 03/09/2023G, as the Company has been able to achieve a total Saudization rate of 29.89%.



05

Ownership Structure and Organization Structure

5- Ownership Structure and Organization Structure

5-1 The Company's ownership structure before and after the Offering

The Company's current capital is (200,000,000) two hundred million Saudi riyals, divided into (20,000,000) twenty million ordinary shares with a nominal value of (10) ten Saudi riyals per share all of them are fully paid, and are ordinary shares of one class. The following table shows the company's ownership structure before and after the offering:

Table No. (75): The Company's ownership structure before and after the Offering

Shareholders	Pre-Offering				Post Offering			
	No. of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership (%)	No. of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership (%)
1 Tabbaa National Holding Company	12,050,000	120,500,000	60.2500%	-	8,435,000	84,350,000	42.1750%	-
2 Talal Yousuf Mahmoud Zahid	4,200,000	42,000,000	21.0000%	-	2,940,000	29,400,000	14.7000%	-
3 Ali Shafer Ahmad Al-Tabbaa	1,320,000	13,200,000	6.6000%	-	924,000	9,240,000	4.6200%	-
4 Faisal Shafer Ahmad Al-Tabbaa	1,280,000	12,800,000	6.4000%	-	896,000	8,960,000	4.4800%	-
5 Durrat Al-Wadaa Investment Company	500,000	5,000,000	2.5000%	-	350,000	3,500,000	1.7500%	-
6 Yousuf Talal Yousuf Zahid	400,000	4,000,000	2.0000%	-	280,000	2,800,000	1.4000%	-
7 Durrat Al-Faisal Investment Company	250,000	2,500,000	1.2500%	-	175,000	1,750,000	0.8750%	-
Public	-	-	-	-	6,000,000	60,000,000	30.0000%	-
Total	20,000,000	200,000,000	100.0000%	-	20,000,000	200,000,000	100.0000%	-

Source: Avalon Pharma Company

5-2 Substantial Shareholders who own 5% or more of the Company's shares

The company has (4) four Substantial Shareholders, each of whom owns 5% or more of the Company's shares as of the date of this Prospectus. The following table shows the number of their shares and their percentage of ownership before and after the Offering:

Table No. (76): Substantial Shareholders who own 5% or more of the company's shares

Substantial Shareholders	Pre-Offering				Post Offering			
	No. of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership (%)	No. of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership (%)
1 Tabbaa National Holding Company	12,050,000	120,500,000	60.2500%	-	8,435,000	84,350,000	42.1750%	-
2 Talal Yousuf Mahmoud Zahid	4,200,000	42,000,000	21.0000%	-	2,940,000	29,400,000	14.7000%	-
3 Ali Shafer Ahmad Al-Tabbaa	1,320,000	13,200,000	6.6000%	-	924,000	9,240,000	4.6200%	-
4 Faisal Shafer Ahmad Al-Tabbaa	1,280,000	12,800,000	6.4000%	-	896,000	8,960,000	4.4800%	-
Total	18,850,000	188,500,000	94.2500%	-	13,195,000	131,950,000	65.9750%	-

Source: Avalon Pharma Company

5-3 Shareholding companies in the Middle East Pharmaceutical Industries Company

Tabbaa National Holding Company

Tabbaa National Holding Company is a limited liability company under commercial registration No. (1010845554) issued by the city of Riyadh on 07/05/1444H (corresponding to 01/12/2022G), and its capital is (100,000) one hundred thousand Saudi riyals, divided into (100,000) one hundred thousand ordinary shares of equal value, the value of each of which is (1) Saudi riyal. The head office of Tabbaa National Holding Company is located in the city of Riyadh, and its activities, according to its commercial registration, are as follows:

- Management of subsidiaries of holding companies.
- Investing the funds of subsidiaries of holding companies.
- Owning real estate and movables necessary for holding companies.
- Providing loans, guarantees and financing to subsidiaries of holding companies.
- Owning industrial property rights to subsidiaries of holding companies.
- Leasing industrial property rights to subsidiaries of holding companies.

The following table shows the ownership structure of Tabbaa National Holding Company:

Table No. (77): Ownership structure of Tabbaa National Holding Company

Partners	Number of shares	Nominal value of the share (SAR)	Total nominal value of the shares (SAR)	Ownership percentage
Ahmad Shafer Ahmad Al-Tabbaa	51,000	1	51,000	51.00%
Lara Ahmad Shafer Al-Tabbaa	15,000	1	15,000	15.00%
Leena Ahmad Shafer Al-Tabbaa	15,000	1	15,000	15.00%
Shafer Ahmad Shafer Al-Tabbaa	9,500	1	9,500	9.50%
Yousif Ahmad Shafer Al-Tabbaa	9,500	1	9,500	9.50%
Total	100,000	-	100,000	100.00%

Source: Avalon Pharma Company

Durrat Al-Wadaa Investment Company

Durrat Al-Wadaa Investment Company is a one-person limited liability company under commercial registration No. (1010848791) issued by the city of Riyadh on 27/05/1444H (corresponding to 21/12/2022G). Its capital is (25,000) twenty-five thousand Saudi riyals, divided into (2,500) two thousand five hundred ordinary shares of equal value, the value of each share is (10) ten Saudi riyals. The main headquarters of Durrat Al-Wadaa Investment Company is located in the city of Riyadh, and its activities, according to its articles of association, are as follows:

- **Wholesale and retail trade and repair of motor vehicles and motorcycles**
 - Wholesale of computers, computer peripheral equipment and software
 - Retail sale of computers, computer peripheral equipment, software, and communications equipment in specialized stores
- **Transportation and storage**
 - Storage
- **Financial and insurance activities**
 - Other financial services activities, excluding insurance and pension financing, not classified elsewhere
 - Money management activities
- **Real estate activities**
 - Real estate activities based on fees or contracts
- **Professional, scientific and technical activities**
 - Advertising
- **Administrative and support services**
 - Organizing conferences and trade exhibitions

The following table shows the ownership structure of Durrat Al-Wadaa Investment:

Table No. (78): Ownership structure of Durrat Al-Wadaa Investment Company

Partners	Number of shares	Nominal value of the share (SAR)	Total nominal value of the shares (SAR)	Ownership percentage
Faisal Suleiman Mohammed Al-Jamaan	2,500	10	25,000	100.00%
Total	2,500	-	25,000	100.00%

Source: Avalon Pharma Company

Durrat Al-Faisal Investment Company

Durrat Al-Faisal Investment Company is a limited liability company under commercial registration No. (1010635096) issued by the city of Riyadh on 13/09/1441H (corresponding to 06/05/2020G). Its capital is (100,000) one hundred thousand Saudi riyals, divided into (100) One hundred ordinary shares of equal value, the value of each of which is (1,000) one thousand Saudi riyals. The main headquarters of Durrat Al-Faisal Investment Company is located in the city of Riyadh, and its activities, according to its commercial registration, are as follows:

- Buying and selling land and properties, dividing it, and off-plan sales activities.
- Advertising institutions and agencies.
- Providing marketing services on behalf of others.
- General construction of residential buildings.
- General construction of non-residential buildings such as schools, hospitals, hotels, etc.
- Organizing and managing exhibitions and conferences.
- Systems analysis.

The following table shows the ownership structure of Durrat Al-Faisal Investment Company:

Table No. (79): Ownership structure of Durrat Al-Faisal Investment Company

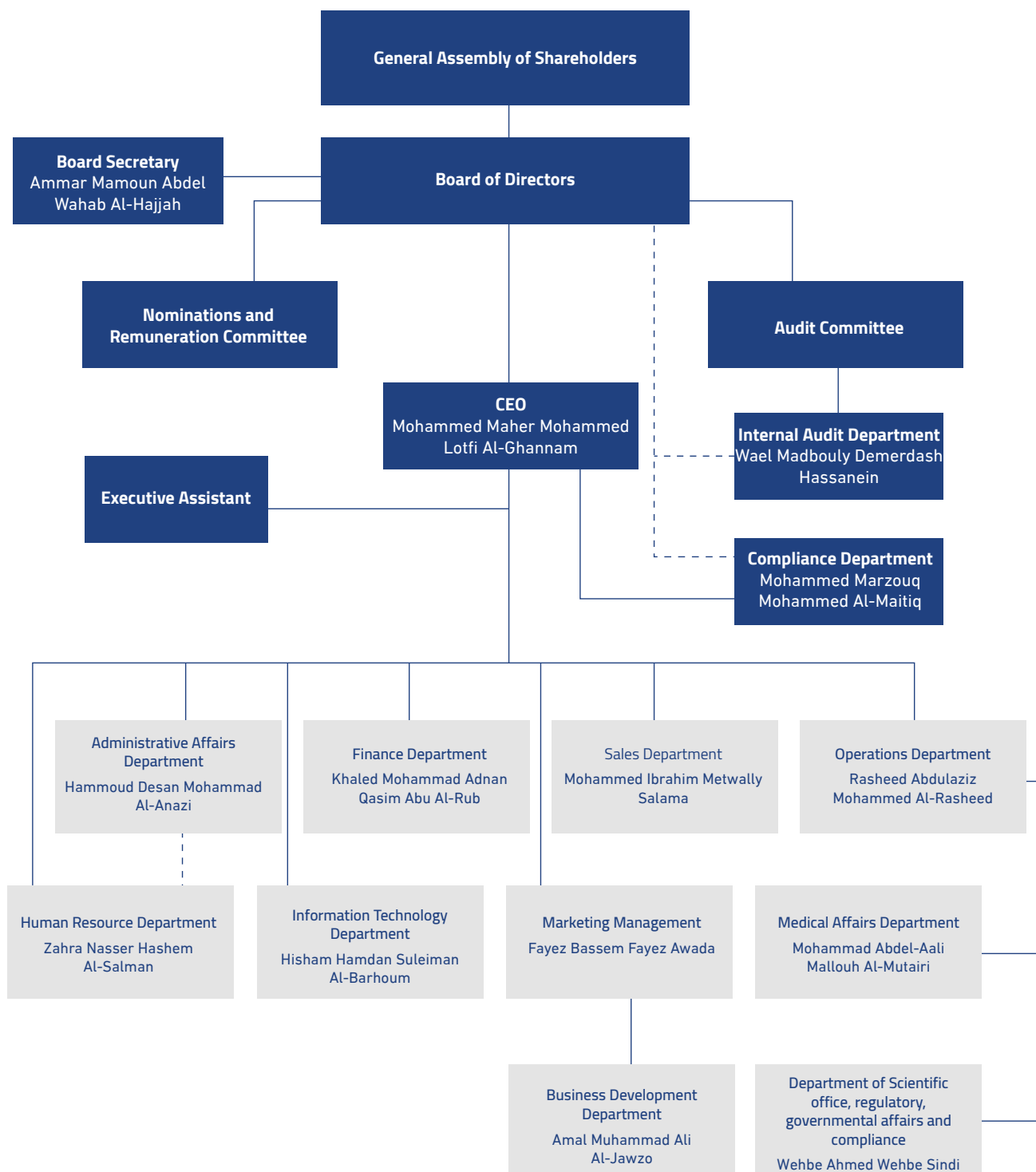
Partners	Number of shares	Nominal value of the share (SAR)	Total nominal value of the shares (SAR)	Ownership percentage
Ibrahim Faisal Suleiman Al-Jamaan	40	1,000	40,000	40.00%
Sarah Faisal Suleiman Al-Jamaan	20	1,000	20,000	20.00%
Farah Faisal Suleiman Al-Jamaan	20	1,000	20,000	20.00%
Zain Faisal Suleiman Al-Jamaan	20	1,000	20,000	20.00%
Total	100	-	100,000	100.00%

Source: Avalon Pharma Company

5-4 Organization Structure

The following figure shows the organizational structure of Middle East Pharmaceutical Industries:

Figure No. (4): the Company's Organization Structure



Source: Avalon Pharma Company

5-5 Board of Directors

The Middle East Pharmaceutical Industries Company is managed by a Board of Directors consisting of (5) five members elected by the Ordinary General Assembly of Shareholders for a period not exceeding (4) four years. Board members may be re-elected. With the exception of this, the transformational general assembly held on 09/09/1443H (corresponding to 10/04/2022G) appointed the first Board of Directors for a period of (4) four years from the date of issuance of the Ministerial Resolution announcing the Company's transformation into a joint stock company. The Board of Directors holds (4) meetings at least annually.

The Company is managed by a Board of Directors consisting of (5) five members, (3) three of whom are independent and (2) two are non-independent. The following table shows the members of the Board of Directors of the Middle East Pharmaceutical Industries Company:

Table No. (80): Board members

Name	Position	Capacity	Nationality	Age	Direct Ownership Ratio		Indirect Ownership Percentage*		Date of Hiring
					Before Offering	Post Offering	Before Offering	Post Offering	
Ahmad Shaher Ahmad Al-Tabbaa	Chairman of Board of Directors	Non-executive/ Non-independent	Saudi	52	-	-	30.7275%	21.5093%	09/09/1443H (corresponding 10/04/2022G)
Hisham Mohammed Mahmoud Attar	Deputy Chairman of the Board	Non-executive/ independent	Saudi	42	-	-	-	-	28/02/1445H (corresponding 13/09/2023G)
Mohammed Maher Mohammed Lotfi Al-Ghannam	Member of the Board of Directors and Managing Director	Executive/ Non-independent	Saint Kitts and Nevis	43	-	-	-	-	09/09/1443H (corresponding 10/04/2022G)
Faisal Suleiman Mohammed Al-Jamaan	Member of the Board of Directors	Non-executive/ independent	Saudi	71	-	-	2.5000%	1.7500%	09/09/1443H (corresponding 10/04/2022G)
Omar Mohammed Saeb Abdul Qader Al-Jaroudi	Member of the Board of Directors	Non-executive/ independent	Saudi	62	-	-	-	-	13/08/1444H (corresponding 05/03/2023G)

Source: Avalon Pharma Company

- * The indirect ownership of Mr. Ahmad Shaher Ahmad Al-Tabbaa resulted from his direct ownership of 51.00% in Tabbaa National Holding Company, which owned 60.25% of the shares of the Middle East Pharmaceutical Industries Company before the Offering, and will own 42.175% after the Offering. The indirect ownership of Mr. Faisal Suleiman Mohammed Al-Jamaan resulted from his direct ownership of 100.00% in Durrat Al-Wadaa Investment Company, which owned 2.50% of the shares of the Middle East Pharmaceutical Industries Company before the Offering, and will own 1.75% after the Offering.
- Members of the Board of Directors, Mr. Ahmad Shaher Ahmad Al-Tabbaa, Mr. Mohammed Maher Mohammed Lotfi Al-Ghannam, and Mr. Faisal Suleiman Mohammed Al-Jamaan were appointed for the current term by the Company's transformational general assembly held on 09/09/1443H (corresponding to 10/04/2022G) for a period of (4) four years.
- Member of the Board of Directors, Mr. Omar Mohammed Saeb Abdul Qader Al-Jaroudi, was appointed by the Extraordinary General Assembly held on 13/08/1444H (corresponding to 05/03/2023G) until the end of the current term of the Board of Directors.
- Mr. Hisham Mohammed Mahmoud Attar, a member of the Board of Directors, was appointed by the Extraordinary General Assembly held on 28/02/1445H (corresponding to 13/09/2023G) until the end of the current term of the Board of Directors.
- The indicators of independence for members of the Board of Directors were determined based on the Corporate

Governance Regulations issued by the Capital Market Authority, which are:

1. if he/she holds five percent or more of the shares of the Company or any other company within its group; or is a relative of who owns such percentage.
2. if he/she is a relative of any member of the Board of the Company, or any other company within the Company's group;
3. if he/she is a relative of any Senior Executive of the Company, or of any other company within the Company's group;
4. if he/she is a Board member of any company within the group of the Company for which he/she is nominated to be a Board member.
5. if he/she is an employee or used to be an employee, during the preceding two years, of the Company or a company within its group, or if he/she held a controlling interest in the Company or any party dealing with the Company or any company within its group, such as external auditors or main suppliers during the preceding two years.
6. if he/she has a direct or indirect interest in the businesses and contracts executed for the Company's account.
7. if the member of the Board receives financial consideration from the Company in addition to the remuneration for his/her membership of the Board or any of its committees exceeding an amount of (SAR 200,000) or 50% of his/her remuneration of the last year for the membership of the board or any of its committees, whichever is less.
8. if he/she engages in a business where he competes with the Company or conducting businesses in any of the company's activities.
9. if he/she served for more than nine years, consecutive or inconsecutive, as a Board member of the Company.

5-5-1 Responsibilities of the Board of Directors

Taking into account the powers assigned to the General Assembly, the Board of Directors shall have the broadest powers necessary to manage the Company in a manner that achieves its objectives, establish its policies, determine its investments, supervise its business and finances, and manage its affairs inside and outside the Kingdom. The Board also has - but is not limited to - the right to sign all types of contracts, documents, instruments and agreements, including but not limited to the contracts of incorporation of companies in which the Company participates, with all their amendments, annexes and amendment decisions, and to sign the agreements and instruments before the Notary and official bodies. The tasks and specializations of the Board of Directors include the following:

- The duties and powers of the Council stipulated in the Companies Law and the Company's Bylaws.
- Developing plans, policies, strategies and main objectives of the Company and supervising their implementation and reviewing them periodically through:
 - Developing, reviewing and directing the Company's comprehensive strategy, main business plans, and risk management policies and procedures.
 - Determining the Company's optimal capital structure, strategies and financial objectives, and approving all types of estimated budgets.
 - Supervising the Company's main capital expenditures, and owning and disposing of assets.
 - Setting performance goals and monitoring implementation and overall performance in the Company.
 - Periodically reviewing and approving the Company's organizational and functional structures.
 - Verifying the availability of human and financial resources necessary to achieve the Company's goals and main plans.
- Establishing systems and controls for internal control and general supervision thereof, through:
 - Developing a written policy to address cases of actual and potential conflicts of interest for members of the Board of Directors, Executive Management, and shareholders, including misuse of the Company's assets and facilities, and misconduct resulting from dealings with related parties.
 - Ensuring the soundness of financial and accounting systems, including systems related to preparing financial reports.
 - Ensuring the implementation of appropriate control systems to measure and manage risks, by developing a general vision of the risks that the Company may face, creating an environment familiar with the culture of risk management at the Company level, and presenting it transparently with stakeholders and parties related to the Company.

- Annual review of the effectiveness of the Company's internal control procedures.
- Preparing clear and specific policies, standards and procedures for membership in the Board of Directors that do not conflict with the mandatory provisions in the organizational regulations and putting them into effect after their approval by the General Assembly.
- Developing a written policy that regulates the relationship with stakeholders.
- Establishing policies and procedures that ensure the Company's compliance with laws and regulations and its commitment to disclosing essential information to shareholders and stakeholders, and verifying the executive management's compliance with them.
- Supervising the Company's financial management, its cash flows, and its financial and credit relationships with others.
- Proposing to the extraordinary general assembly what it deems appropriate regarding increasing or reducing the Company's capital, or in the event of the Company's dissolution before the period specified in the Company's bylaws or deciding its continuation.
- Propose to the Ordinary General Assembly what it deems appropriate regarding the use of the Company's reserves in the event that they are not allocated for a specific purpose in the Company's bylaws, or in the event of the formation of additional financial reserves or provisions for the Company.
- Preparing the Company's initial and annual financial statements and approving them before their publication.
- Preparing the Board of Directors' report and approving it before its publication.
- Ensuring the accuracy and integrity of the data and information that must be disclosed in accordance with applicable disclosure and transparency policies and systems.
- Establishing effective communication channels that allow shareholders to continuously and periodically review aspects of the Company's various activities and any fundamental developments.
- Forming specialized committees emanating from it through decisions specifying the duration of the committee, its powers and responsibilities, and how the Board will monitor it, provided that the formation decision includes naming the members and specifying their tasks, rights and duties, along with an evaluation of the performance and work of these committees and their members.
- Determining the types of remunerations granted to the Company's employees, such as fixed remunerations, performance-related remunerations, and remunerations in the form of shares, in a manner that does not conflict with the implementing regulations of the Companies' Law for listed joint-stock companies.
- Establishing the values and standards that govern work in the Company.

5-5-2 Chairman of the Board of Directors

The Chairman of the Board is responsible for representing the Company in its relations with others, before the judiciary and the notary office, and before all government departments, dispute resolution committees of various types and degrees, and all other parties. He has the right to represent the Company in buying, selling, and ownership transferring of lands and real estate, and the right to sign the incorporation contracts of the companies in which it participates, and other contracts, and he has the right to appoint others to carry out any of these powers.

Without prejudice to the powers of the Board of Directors, the Chairman of the Board of Directors is responsible for leading the Board, supervising the conduct of its work, and performing its powers effectively. The duties and powers of the Chairman of the Board of Directors include, in particular, the following:

- Ensuring that board members receive timely, complete, clear, correct and non-misleading information.
- Ensuring that the Board of Directors discusses all key issues in an effective and timely manner.
- Representing the Company before others in accordance with what is stipulated in the companies' law, its executive regulations, and the Company's bylaws.
- Encouraging Board members to carry out their duties effectively and in the interest of the Company.
- Ensuring the existence of channels for effective communication with shareholders and communicating their opinions to the Board of Directors.
- Encouraging constructive relations and effective participation between the Board of Directors, executive management, and between executive, non-executive and independent members, and creating a culture that encourages constructive criticism.

- Preparing the agenda for Board of Directors meetings, taking into account any issue raised by a member of the Board of Directors or raised by the auditor, and consulting with Board members and the CEO when preparing the Board's agenda.
- Holding periodic meetings with non-executive Board members without the presence of any Company executive.

5-5-3 Deputy Chairman of the Board of Directors

The duties and responsibilities of the Deputy Chairman of the Board of Directors include the following:

- Assisting the Chairman of the Board of Directors in matters and issues related to the Company's Board of Directors.
- Calling the Board to meet in the absence of the Chairman.
- Chairing the Board meetings in the absence of the Chairman.
- Chairing General Assembly meetings in the absence of the Chairman.
- Acting as Chairman in his absence.

The Deputy Chairman of the Board of Directors is responsible for directing management and reviewing important decisions before passing them to the Board of Directors. The Deputy Chairman of the Board of Directors has the broadest powers to represent the Company before various government agencies.

5-5-4 Board Member and Managing Director

The Board Member and Managing Director is responsible for the Company's financial and operational performance, developing and implementing the Company's strategy, and implementing the Company's annual business plans approved by the Board of Directors. The duties and responsibilities of the CEO are as follows:

- Implementing the Company's main plans, policies, strategies and objectives approved by the Board of Directors.
- Proposing a comprehensive strategy for the Company and translating the strategic plan into operations, in addition to proposing the main and interim work plans, policies and mechanisms for investment, financing, risk management, and plans for managing emergency administrative conditions and implementing them.
- Presenting periodic financial and non-financial reports to the Board of Directors regarding the progress achieved in the Company's activity in light of the Company's strategic plans and objectives.
- Submitting proposals related to the Company's capital structure, organizational and functional structures and submitting them to the Board of Directors for discussion and consideration of their approval.
- Managing human, material and financial resources in an optimal manner and in accordance with the Company's objectives and strategy.
- Managing the Company's daily work and activities, as well as managing its resources optimally and in accordance with the Company's goals and strategy, according to relevant regulations and laws.
- Developing and implementing internal control and risk management systems, verifying the effectiveness and adequacy of those systems, and ensuring compliance with the level of risks approved by the Board of Directors.
- Developing, implementing and updating the Company's internal policies and systems approved by the Board of Directors.
- Proposing the Company's main capital expenditures and owning and disposing of assets.
- Implementing internal control systems and controls and general supervision thereof, including:
 - Implementing conflict of interest policy.
 - Properly applying financial and accounting procedures, including procedures related to preparing financial reports.
- Implementing and ensuring the Company's compliance with governance standards set by the Company's Board of Directors.
- Providing the Board of Directors with the information necessary to exercise its powers and provide its recommendations regarding the following:

- Increasing or decreasing the Company's capital.
 - Using the Company's contractual reserve.
 - Creating additional reserves for the Company.
 - The method of distributing the Company's net profits.
- Proposing employee remunerations.
 - Proposing a clear policy for delegating work to the executive management and how to implement it.
 - Monitoring the Company's financial performance.
 - Representing the Company before the official authorities and coordinating with them to contribute to the development of the necessary legislation and laws to remove obstacles that may hinder the Company and support its ability to achieve its goals.
 - Maintaining the confidentiality of information related to the Company and its activities and not disclosing it to others.

5-5-5 Employment and service contracts with members of the Board of Directors

There are no service or work contracts concluded between the Company and the members of the Board of Directors in their capacity as members of the Board of Directors, except for the work and service contracts concluded with Board Member Mohammed Maher Mohammed Lotfi Al-Ghannam in his capacity as a member of the Company's executive management (see Section No. (5-8) «**Employment Contracts with the CEO, CFO and other members of Executive Management**» of this Prospectus).

5-5-6 Summary of biographies of members of the Board of Directors

Below is a summary of the biographies of members of the Board of Directors:

Table No. (81): the biography of the Chairman of the Board of Directors.

Name:	Ahmad Shafer Ahmad Al-Tabbaa
Age:	52 years
Position:	Chairman of the Board of Directors
Date of appointment:	09/09/1443H (corresponding to 10/04/2022G)
Nationality:	Saudi
Academic qualifications:	<ul style="list-style-type: none"> • He holds a bachelor's degree in economics from the American University in Washington State, USA, in 1994.
Practical experiences:	<ul style="list-style-type: none"> • Founder and Chairman of the Board of Directors of the Middle East Distribution Company in Riyadh from 2000G to 2018G, which is a limited liability company working in the field of distributing health products and medicines • Chairman of the Board of Directors of the Riyadh Renewable Energy Company in the city of Riyadh from 2017G to 2021G, which is a limited liability company working in the field of providing renewable energy. • Founder and Chairman of the Board of Directors of the First Pharmaceutical Company in Riyadh from 2003G to 2005G, which is a limited liability company working in the field of investing in and operating pharmacies. • Founder and Chairman of the Board of Directors of the Middle East Machinery Company in Riyadh from 1998G to 2000G, which is a limited liability company working in the field of manufacturing and packaging of the pharmaceutical, food and water industries.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • Deputy Chairman of the Board of Directors of the Jordanian Saudi E-Commerce Company in Jordan since 2006G, which is a limited liability company working in online retail.

Source: Avalon Pharma Company

Table No. (82): Biography of the Deputy Chairman of the Board of Directors

Name:	Hisham Mohammed Mahmoud Attar
Age:	42 years
Position:	Deputy Chairman of the Board of Directors
Date of appointment:	28/02/1445H (corresponding to 13/09/2023G)
Nationality:	Saudi
Academic qualifications:	<ul style="list-style-type: none"> • He holds a bachelor's degree in business economics and public and private sector organizations from Brown University in Rhode Island, USA, in 2004G.
Practical experiences:	<ul style="list-style-type: none"> • Managing Director of the Saudi Technical Development and Investment Company «Taqnia» in the city of Riyadh since 2022G, which is a limited liability company working in the field of information technology. • Senior advisor to the Deputy Governor and Head of the Identity Department in the Middle East and North Africa region at the Public Investment Fund in Riyadh from 2021G to 2022G, and he works in the field of multiple investments. • Senior Executive Director in the Local Partnership Department at the Public Investment Fund in Riyadh from 2019G to 2021G, and he works in the field of multiple investments. • Senior Vice President of the Saudi Equity Department at the Public Investment Fund in Riyadh from 2016G to 2019G, and he works in the field of multiple investments. • President of Amwal Al-Khaleej Investment Company in Riyadh during the year 2016G, which works in the field of providing financial services. • Vice President at Amwal Al Khaleej Investment Company in Riyadh during 2015G, which works in the field of providing financial services. • Executive Vice President of the Sports Clubs Company in Riyadh from 2013G to 2015G, which works in the field of sports and sports equipment. • Vice President at Amwal Al Khaleej Investment Company in Riyadh from 2008G to 2013G, which works in the field of providing financial services. • Senior deputy in Assets and Liabilities Management at the National Saudi Bank in Jeddah from 2006G to 2008G, and it works in the field of providing financial and banking services. • Marketing Officer for Investments and Derivatives Sales at the National Bank of Saudi Arabia in Jeddah from 2004G to 2006G. It works in the field of providing financial and banking services. • Founder and partner in Thara Al-Mustaqbal Investment Company in Riyadh since 2022G, which works in the field of chemical materials and waste management. • General partner and member of the Executive Committee of KC AGRO in Romania since 2013G, which works in the field of agriculture and agricultural land operation. • Founder and partner of Arena Group Company in Jeddah since 2012G, which works in the field of fitness centers. • Founder and partner of Al-Farabi Medical Company in Riyadh since 2010G, which works in the field of providing medical services. • Member of the Investment Committee of the Saudi Technical Development and Investment Company «Taqnia» in the city of Riyadh since 2022G, and it works in the field of information technology. • Member of the Compliance Committee at the Arab Bank in Jordan since 2018G. • Member of the Strategy Committee at the Arab Bank in Jordan since 2018G. • Chairman of the Nominations and Remuneration Committee at the Saudi Jordanian Investment Fund Company in Jordan since 2017G.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • Managing Director of the Saudi Technical Development and Investment Company «Taqnia» in Riyadh since 2022G, which is a limited liability company working in the field of information technology. • Member of the Board of Directors of Tejoori Company in Riyadh since 2022G, which is a closed joint stock company working in the field of providing information management and digital archiving services. • Member of the Board of Directors of the Arab Bank in Jordan since 2018G, which is a joint stock company working in the field of providing financial and banking services. • Chairman of the Board of Directors of the Saudi Jordanian Investment Fund Company in Jordan since 2017G, which is a joint stock company working in the field of multiple investments. • Member of the Board of Directors of KC AGRO in Romania since 2013G, which is a limited liability company working in the field of agriculture and agricultural land operation.

Source: Avalon Pharma Company

Table No. (83): Biography of the Board Member and Managing Director

Name:	Mohammed Maher MohammedLotfi Al-Ghannam
Age:	43 years
Position:	Member of the Board of Directors and Managing Director
Date of appointment:	09/09/1443H (corresponding to 10/04/2022G)
Nationality:	Saint Kitts and Nevis
Academic qualifications:	<ul style="list-style-type: none"> • He holds a Master's degree in Business Administration from Central California University in California, USA, in 2018G. • He holds a Bachelor's degree in Business Administration from Damascus University in Syria in 2009G.
Practical experiences:	<ul style="list-style-type: none"> • Managing Director and CEO of the Middle East Pharmaceutical Industries Company in Riyadh since 2022G. • CEO of the Middle East Pharmaceutical Industries Company in Riyadh from 2018G to 2022G. • Director of Operations at the Middle East Pharmaceutical Industries Company in Riyadh from 2016G to 2018G. • Director of Human Resources and Logistics Services at the Middle East Pharmaceutical Industries Company in Riyadh from 2006G to 2015G. • Director of Purchasing and Logistics Services at the Middle East Pharmaceutical Industries Company in Riyadh from 2000G to 2006G.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • None

Source: Avalon Pharma Company

Table No. (84): Biography of a member of the Board of Directors

Name:	Faisal Suleiman Mohammed Al-Jamaan
Age:	71 years
Position:	Member of the Board of Directors
Date of appointment:	09/09/1443H (corresponding to 10/04/2022G)
Nationality:	Saudi
Academic qualifications:	<ul style="list-style-type: none"> • He holds a bachelor's degree in computer technology from Brunel University in the United Kingdom in 1978G.
Practical experiences:	<ul style="list-style-type: none"> • CEO of Tawkelat Financing Company in Riyadh since 2017G. • CEO of United Motors Company in Riyadh from 2000G to 2017G. • General Manager at Al-Ahlia Advanced Systems Company Limited in Riyadh from 1999 to 2000G. • General Manager at the United Arab Motors Company in Riyadh from 1996 to 1999G. • General Manager at Integrated Systems Company in Riyadh from 1993 to 1996G. • General Manager at the Saudi Electronic Systems Company in Riyadh from 1979G to 1993G. • Programming analyst at Grand Metropolitan Systems in the United Kingdom from 1978G to 1979G. • Research assistant at the University of London in the United Kingdom in 1976G. • Programmer at ABC Business Press in the United Kingdom in 1974G. • Chairman of the Audit Committee at Al-Esayi Motors Company in Riyadh since 2020G. • Chairman of the Audit Committee at the United Motors Company in Riyadh since 2020G. • Chairman of the Audit Committee at the Arab Tile Company in Riyadh since 2019G.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • Member of the Board of Directors of Al-Esayi Motors Company in Riyadh since 2020G, which is a closed joint stock company working in the field of selling cars. • Member of the Board of Directors of the Arab Tile Company in Riyadh since 2019G, which is a closed joint stock company working in the field of manufacturing tiles and building supplies. • Chairman of the Board of Directors of the Comprehensive Marketing Company in Riyadh since 2007G, which is a limited liability company working in the field of marketing services for health products and medicines. • Member of the Board of Directors of Tawkelat Financing Company in Riyadh since 2007G, which is a closed joint stock company working in the field of finance.

Source: Avalon Pharma Company

Table No. (85): Biography of a member of the Board of Directors

Name:	Omar MohammedSaeb Abdul Qader Al-Jaroudi
Age:	62 years
Position:	Member of the Board of Directors
Date of appointment:	13/08/1444H (corresponding to 05/03/2023G)
Nationality:	Saudi
Academic qualifications:	<ul style="list-style-type: none"> • He holds a master's degree in economics from Syracuse University in New York State, USA, in 1984G. • He holds a Bachelor's degree in Business Administration from the American University of Beirut in Lebanon in 1983G. • He holds a Certificate in Securities Dealing (CME1) from the Financial Academy in Riyadh in 2013G.
Practical experiences:	<ul style="list-style-type: none"> • CEO and Vice President of Asset Management at Shuaa Capital Saudi Arabia in Riyadh since 2008G. • Director of the Investment Banking Department at Audi Saradar Investment Bank in Lebanon from 2005G to 2007G. • Senior Director of Business Development at Audi Saradar Investment Bank in Lebanon from 2000G to 2005G. • Senior Director of Business Development at Lebanon Invest in Lebanon from 1995G to 2000G. • Director of the Brokerage Department at the Banque Saudi Fransi in Jeddah from 1991G to 1994G. • Director of the International Brokerage Department at the Banque Saudi Fransi in Riyadh from 1989G to 1991G. • Director of the Investment Consulting Department at the Banque Saudi Fransi in Jeddah during the year 1988G. • Assistant Portfolio Manager at Banque Saudi Fransi in Jeddah from 1987G to 1988G. • Credit officer at the Saudi Fransi Bank in Riyadh from 1984G to 1987G. • Member of the Board of Directors at Gulf Finance Company in Riyadh from 2019G to 2023G, which is a closed joint stock company working in the field of finance. • Member of the Board of Directors of Shuaa Wadi Al-Huda Real Estate Fund in Riyadh from 2016G to 2023G, which is a real estate fund managed by Shuaa Capital Saudi Arabia, a closed joint stock company working in the field of providing financial services under the supervision of the Capital Market Authority. • Member of the Board of Directors of Hotel Funds at Shuaa Capital Saudi Arabia in Riyadh from 2010G to 2023G, which is a closed joint stock company working in the field of providing financial services under the supervision of the Capital Market Authority. • Member of the Board of Directors of Shuaa Capital Saudi Arabia in Riyadh from 2008G to 2023G, which is a closed joint stock company operating in the field of providing financial services under the supervision of the Capital Market Authority.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • Member of the Board of Directors of Yamam Al-Mustaqbal Company in Riyadh since 2021G, which is a limited liability company working in the field of real estate development. • Member of the Board of Directors of Acacia Real Estate Development Company in Lebanon since 2015G, which is a limited liability company working in the field of real estate development. • Member of the Board of Directors of Al Bani Real Estate Development Company in Riyadh since 2013G, which is a limited liability company working in the field of real estate development. • Member of the Board of Directors of United Shareholders Company in Lebanon since 2010G, which is a limited liability company operating in the field of financial services. • Member of the Board of Directors of Quintillion Hotels UK (Home House) in the United Kingdom since 2009G, which is a limited liability company working in the field of hotel services.

Source: Avalon Pharma Company

5-5-7 Secretary of the Board of Directors

The Board of Directors decided to appoint the Executive Assistant, Mr. Ammar Mamoun Abdul Wahab Al-Hajjah, as Secretary of the Board of Directors on 02/03/1445H (corresponding to 17/09/2023G).

The Secretary records the minutes of Board of Directors meetings, writes down and saves the decisions issued by these meetings, in addition to exercising other powers assigned to him by the Board of Directors. The responsibilities and powers of the Board Secretary include the following:

- Documenting the meetings of the Board of Directors and preparing minutes for them that include the discussions and deliberations that took place, indicating the place, date, start and end times of the meeting, documenting the Board's decisions and voting results, keeping them in a special and organized register, recording the names of the members present and the reservations they expressed, if any, and having these minutes signed by the head of the meeting and all members present and the Secretary.
- Keeping the reports submitted to the Board of Directors and the reports prepared by the Board.
- Providing the members of the Board of Directors with the Board's agenda, working papers, documents and information related to it, and any additional documents or information requested by any member of the Board of Directors related to the topics included in the meeting agenda.
- Verifying that Board members adhere to the procedures approved by the Board.
- Informing the members of the Board of Directors of the dates of the Board meetings sufficiently before the specified date.
- Presenting draft minutes to members of the Board of Directors to express their views on them before signing them.
- Verifying that board members obtain complete and prompt access to a copy of the minutes of board meetings and information and documents related to the company.
- Coordination between members of the Board of Directors.
- Organizing the record of disclosures of members of the Board of Directors and Executive Management in accordance with the provisions stipulated in the Corporate Governance Regulations.
- Providing assistance and advice to members of the Board of Directors.

Below is a summary of the Biography of the Secretary of the Board of Directors:

Table No. (86): Secretary of the Board of Directors

Name:	Ammar Mamoun Abdel Wahab Al-Hajja
Age:	36 years
Position:	Secretary of the Board of Directors
Date of appointment:	02/03/1445H (corresponding to 17/09/2023G)
Nationality:	Syrian
Academic qualifications:	<ul style="list-style-type: none"> • He holds a Master's degree in Business Administration from Smart All University in the Emirate of Dubai, United Arab Emirates, in 2022G. • He holds a bachelor's degree in economics from Damascus University in Syria in 2011.
Practical experiences:	<ul style="list-style-type: none"> • Executive Assistant at the Middle East Pharmaceutical Industries Company in Riyadh since 2011G.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • None

Source: Avalon Pharma Company

5-6 Board of Directors' Committees

5-6-1 Audit Committee

The Audit Committee was formed in accordance with Article (51) Fifty-One of the Corporate Governance Regulations issued by the Capital Market Authority. The Ordinary General Assembly approved in its meeting held on 15/11/1443H (corresponding to 14/06/2022G) the formation of the Audit Committee. The term of the Audit Committee begins from the beginning of the Board of Directors' session and ends with the end of the Board of Directors' session. The Extraordinary General Assembly, in its meeting held on 13/08/1444H (corresponding to 05/03/2023G), approved its updated work regulations that determine its tasks, work controls, and the remuneration of its members.

Responsibilities of the Audit Committee:

The Audit Committee is responsible for monitoring the Company's work, reviewing its records and documents, reviewing the Company's financial statements and the reports and notes submitted by the auditor, if any, evaluating the effectiveness of the Company's assessment of risks, evaluating internal control systems, and the accuracy of financial and administrative reports, reviewing management reports and information requested by supervisory authorities, and monitoring the work of external and internal auditors, coordinating between them, ensuring compliance with the rules of financial and administrative transactions and professional conduct, expressing an opinion on them, and preparing reports on its opinion regarding the adequacy of the Company's internal control system and the work it has undertaken. The Committee's tasks include the following:

Financial Reports:

- Studying the Company's initial and annual financial statements before presenting them to the Board of Directors and expressing an opinion and recommendation regarding them, to ensure their integrity, fairness and transparency.
- Expressing a technical opinion on whether the Board of Directors' report and the Company's financial statements are fair, balanced, and understandable and include information that allows shareholders and investors to evaluate the Company's financial condition, performance, business model, and strategy.
- Studying any important or unusual issues included in the financial reports.
- Carefully researching any issues raised by the Company's financial director, whoever assumes his duties, the Company's compliance officer, or the auditor.
- Verifying accounting estimates on the fundamental issues contained in the financial reports.
- Studying the accounting policies followed in the Company and expressing an opinion and recommendation to the Board of Directors regarding them.

Internal Audit:

- Studying and reviewing the Company's internal control, financial and risk management systems.
- Studying internal audit reports and follow up on the implementation of corrective measures for the observations contained therein.
- Monitoring and supervising the performance and activities of the internal auditor and the Internal Audit Department in the Company to verify the availability of the necessary resources and their effectiveness in performing the work and tasks assigned to them.
- Recommending to the Board of Directors to appoint a director of the internal audit unit or department or the internal auditor and proposing his remuneration.

Auditors:

- Recommending to the Board of Directors to nominate auditors, dismiss them, determine their fees, and evaluate their performance after verifying their independence and reviewing the scope of their work and the terms of contracting with them.
- Verifying the independence, objectivity and fairness of the auditor, and the effectiveness of the audit work, taking into account the relevant rules and standards.
- Reviewing the Company's auditor's plan and work, verifying that he does not provide technical, administrative, or consulting work that falls outside the scope of audit work, and expressing its views on that.
- Answering the Company's auditor's inquiries.
- Studying the auditor's report and his comments on the financial statements and following up on what was taken regarding them.

Commitment Guarantee:

- Reviewing the results of the regulatory authorities' reports and verifying that the Company has taken the necessary measures regarding them.
- Verifying the Company's compliance with relevant laws, regulations, policies and instructions.
- Reviewing the contracts and transactions proposed to be conducted by the Company with related parties, and presenting its views regarding that to the Board of Directors.
- Raising the issues that it deems necessary to take action on to the Board of Directors, and making its recommendations on the measures that must be taken.

The Audit Committee consists of (3) three members as shown in the following table:

Table No. (87): Members of the Audit Committee

Name	Position	Capacity	Date of Appointment
Faisal Suleiman Mohammed Al-Jamaan	Chairman of the Audit Committee	Non-Executive/Independent	15/11/1443H (corresponding to 14/06/2022G)
Omar Mohammed Saeb Abdul Qader Al-Jaroudi	Member of the Audit Committee	Non-Executive/Independent	15/11/1443H (corresponding to 14/06/2022G)
Yanal Muwaffaq Sadiq Al-Saudi*	Member of the Audit Committee	Non-Executive/Independent	28/07/1444H (corresponding to 19/02/2023G)

Source: Avalon Pharma Company

* The Extraordinary General Assembly held on 13/08/1444H (corresponding to 05/03/2023G) approved the appointment of a member of the Audit Committee, Mr. Yanal Muwaffaq Sadiq Al-Saudi, starting from 28/07/1444H (corresponding to 19/02/2023G) until the end of the committee's current term of work.

Below is a summary of the biographies of the members of the Audit Committee:

Table No. (88): Biography of the Chairman of the Audit Committee

Name:	Faisal Suleiman Mohammed Al-Jamaan
Age:	71 years
Position:	Chairman of the Audit Committee
Date of appointment:	15/11/1443H (corresponding to 14/06/2022G)
Nationality:	Saudi
Academic qualifications:	<ul style="list-style-type: none"> • He holds a bachelor's degree in computer technology from Brunel University in the United Kingdom in 1978.
Practical experiences:	<ul style="list-style-type: none"> • CEO of Tawkelat Financing Company in Riyadh since 2017G. • CEO of United Motors Company in Riyadh from 2000G to 2017G. • General Manager at Al-Ahlia Advanced Systems Company Limited in Riyadh from 1999G to 2000G. • General Manager at the United Arab Motors Company in Riyadh from 1996G to 1999G. • General Manager at Integrated Systems Company in Riyadh from 1993G to 1996G. • General Manager at the Saudi Electronic Systems Company in Riyadh from 1979G to 1993G. • Programming analyst at Grand Metropolitan Systems in the United Kingdom from 1978G to 1979G. • Research assistant at the University of London in the United Kingdom in 1976G. • Programmer at ABC Business Press in the United Kingdom in 1974G. • Chairman of the Audit Committee at Al-Esayi Motors Company in Riyadh since 2020G. • Chairman of the Audit Committee at the United Motors Company in Riyadh since 2020G. • Chairman of the Audit Committee at the Arab Tile Company in Riyadh since 2019G.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • Member of the Board of Directors of Al-Esayi Motors Company in Riyadh since 2020G, which is a closed joint stock company working in the field of selling cars. • Member of the Board of Directors of the Arab Tile Company in Riyadh since 2019G, which is a closed joint stock company working in the field of manufacturing tiles and building supplies. • Chairman of the Board of Directors of the Comprehensive Marketing Company in Riyadh since 2007G, which is a limited liability company working in the field of marketing services for health products and medicines. • Member of the Board of Directors of Tawkelat Financing Company in Riyadh since 2007G, which is a closed joint stock company working in the field of finance.

Source: Avalon Pharma Company

Table No. (89): Biography of the Audit Committee member

Name:	Omar MohammedSaeb Abdul Qader Al-Jaroudi
Age:	62 years
Position:	Audit Committee member
Date of appointment:	15/11/1443H (corresponding to 14/06/2022G)
Nationality:	Saudi
Academic qualifications:	<ul style="list-style-type: none"> • He holds a master's degree in economics from Syracuse University in New York State, USA, in 1984G. • He holds a Bachelor's degree in Business Administration from the American University of Beirut in Lebanon in 1983G. • He holds a Certificate in Securities Dealing (CME1) from the Financial Academy in Riyadh in 2013G.
Practical experiences:	<ul style="list-style-type: none"> • CEO and Vice President of Asset Management at Shuaa Capital Saudi Arabia in Riyadh since 2008G. • Director of the Investment Banking Department at Audi Saradar Investment Bank in Lebanon from 2005G to 2007G. • Senior Director of Business Development at Audi Saradar Investment Bank in Lebanon from 2000G to 2005G. • Senior Director of Business Development at Lebanon Invest in Lebanon from 1995G to 2000G. • Director of the Brokerage Department at the Banque Saudi Fransi in Jeddah from 1991G to 1994G. • Director of the International Brokerage Department at the Banque Saudi Fransi in Riyadh from 1989G to 1991G. • Director of the Investment Consulting Department at the Banque Saudi Fransi in Jeddah during the year 1988G. • Assistant Portfolio Manager at Banque Saudi Fransi in Jeddah from 1987G to 1988G. • Credit officer at the Saudi Fransi Bank in Riyadh from 1984G to 1987G. • Member of the Board of Directors at Gulf Finance Company in Riyadh from 2019G to 2023G, which is a closed joint stock company working in the field of finance. • Member of the Board of Directors of Shuaa Wadi Al-Huda Real Estate Fund in Riyadh from 2016G to 2023G, which is a real estate fund managed by Shuaa Capital Saudi Arabia, a closed joint stock company working in the field of providing financial services under the supervision of the Capital Market Authority. • Member of the Board of Directors of Hotel Funds at Shuaa Capital Saudi Arabia in Riyadh from 2010G to 2023G, which is a closed joint stock company working in the field of providing financial services under the supervision of the Capital Market Authority. • Member of the Board of Directors of Shuaa Capital Saudi Arabia in Riyadh from 2008G to 2023G, which is a closed joint stock company operating in the field of providing financial services under the supervision of the Capital Market Authority.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • Member of the Board of Directors of Yamam Al-Mustaqbal Company in Riyadh since 2021G, which is a limited liability company working in the field of real estate development. • Member of the Board of Directors of Acacia Real Estate Development Company in Lebanon since 2015G, which is a limited liability company working in the field of real estate development. • Member of the Board of Directors of Al Bani Real Estate Development Company in Riyadh since 2013G, which is a limited liability company working in the field of real estate development. • Member of the Board of Directors of United Shareholders Company in Lebanon since 2010G, which is a limited liability company operating in the field of financial services. • Member of the Board of Directors of Quintillion Hotels UK (Home House) in the United Kingdom since 2009G, which is a limited liability company working in the field of hotel services.

Source: Avalon Pharma Company

Table No. (90): Biography of the Audit Committee member

Name:	Yanal Muwaffaq Sadiq Al-Saudi
Age:	60 years
Position:	Member of the Audit Committee
Date of appointment:	28/07/1444H (corresponding to 19/02/2023G)
Nationality:	Jordanian
Academic qualifications:	<ul style="list-style-type: none"> • He holds a Bachelor's degree in Business Administration from the University of Oklahoma in Oklahoma, USA, in 1985G. • He holds a Certified Public Accountant (CPA) certificate from the Board of Accountants in the State of Alaska, USA, in 1992G.
Practical experiences:	<ul style="list-style-type: none"> • Executive audit manager at Ernst & Young & Partners in Riyadh from 2002G to 2022G. • Director responsible for the Audit Services Department - Riyadh at Ernst & Young & Partners in Riyadh from 2013G to 2017G. • Director responsible for the Independence Department (Risk Management) - Middle East and North Africa region at Ernst & Young & Partners in Riyadh from 2013G to 2016G. • Chief auditor at Arthur Anderson & Partners in Jordan from 1996G to 2001G. • Auditor at Arthur Anderson & Co. in Jordan from 1989G to 1995G. • Member of the Partners Advisory Board - Europe and the Middle East region at Ernst & Young & Partners in Riyadh from 2014G to 2018G. • Chairman of the Audit Committee at Rafal Real Estate Development Company in Riyadh since 2022G. • Chairman of the Audit Committee at Hana Food Industries Company in Riyadh since 2022G. • Member of the Audit Committee of the Saudi Reinsurance Company in Riyadh since 2023G.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • None

Source: Avalon Pharma Company

5-6-2 Nominations and Remuneration Committee

The Nominations and Remuneration Committee was appointed pursuant to a decision of the Board of Directors at its meeting held on 28/07/1444H (corresponding to 19/02/2023G) and their membership term is for (3) three years or the duration of the Board of Directors' term or the remainder of it, whichever is shorter. The Ordinary General Assembly approved at its meeting held on 28/02/1445H (corresponding to 13/09/2023G), the updated work regulations of the Nominations and Remuneration Committee, which determine its tasks, work controls, and remuneration for its members.

The Nominations and Remuneration Committee is responsible for supervising and recommending to the Board of Directors nominations for Board membership in accordance with the approved policies and standards, and developing clear policies for compensation and remunerations for members of the Board of Directors, the emerging committees and senior executives, and reviewing them periodically. The Committee's tasks include the following:

- Recommending to the Board of Directors to nominate and re-nominate members in accordance with approved policies and standards.
- Proposing clear policies and standards for membership in the Board of Directors and executive management.
- Preparing a clear policy for the remuneration of members of the Board of Directors and the committees emanating from the Board and Executive Management, and submitting it to the Board of Directors for consideration in preparation for its approval by the General Assembly, provided that this policy takes into account following standards related to performance, disclosing them, and verifying their implementation.
- Periodically reviewing the remunerations policy and evaluating its effectiveness in achieving the desired goals.
- Recommending to the Board of Directors the remuneration of members of the Board of Directors, its committees, and the Company's senior executives in accordance with the approved policy.
- Preparing a description of the capabilities and qualifications required for membership in the Board of Directors and filling executive management positions.
- Determining the time that a member must devote to the work of the Board of Directors.

- Annual review of the necessary skills or experience needed for membership in the Board of Directors and executive management functions.
- Reviewing the structure of the Board of Directors and Executive Management and making recommendations regarding changes that can be made.
- Verifying on an annual basis the independence of the independent members, and the absence of any conflict of interest if the member holds a membership in the board of directors of another company.
- Developing job descriptions for executive members, non-executive members, independent members and senior executives.

The Nominations and Remuneration Committee consists of (3) three members as shown in the following table:

Table No. (91): Members of the Nominations and Remuneration Committee

Name	Position	Capacity	Date of Appointment
Omar MohammedSaeb Abdul Qader Al-Jaroudi	Chairman of the Nominations and Remuneration Committee	Non-Executive/Independent	28/07/1444H (corresponding to 19/02/2023G)
Ahmad Shaher Ahmad Al-Tabbaa	Member of the Nominations and Remuneration Committee	Non-Executive/Non-Independent	28/07/1444H (corresponding to 19/02/2023G)
Yanal Muwaffaq Sadiq of Al-Saudi	Member of the Nominations and Remuneration Committee	Non-Executive/Independent	28/07/1444H (corresponding to 19/02/2023G)

Source: Avalon Pharma Company

Below is a summary of the biographies of members of the Nominations and Remuneration Committee:

Table No. (92): Biography of the Chairman of the Nominations and Remuneration Committee

Name:	Omar MohammedSaeb Abdul Qader Al-Jaroudi
Age:	62 years
Position:	Chairman of the Nominations and Remuneration Committee
Date of appointment:	28/07/1444H (corresponding to 19/02/2023G)
Nationality:	Saudi
Academic qualifications:	<ul style="list-style-type: none"> • He holds a master's degree in economics from Syracuse University in New York State, USA, in 1984G. • He holds a Bachelor's degree in Business Administration from the American University of Beirut in Lebanon in 1983G. • He holds a Certificate in Securities Dealing (CME1) from the Financial Academy in Riyadh in 2013G.
Practical experiences:	<ul style="list-style-type: none"> • CEO and Vice President of Asset Management at Shuaa Capital Saudi Arabia in Riyadh since 2008G. • Director of the Investment Banking Department at Audi Saradar Investment Bank in Lebanon from 2005G to 2007G. • Senior Director of Business Development at Audi Saradar Investment Bank in Lebanon from 2000G to 2005G. • Senior Director of Business Development at Lebanon Invest in Lebanon from 1995G to 2000G. • Director of the Brokerage Department at the Banque Saudi Fransi in Jeddah from 1991G to 1994G. • Director of the International Brokerage Department at the Banque Saudi Fransi in Riyadh from 1989G to 1991G. • Director of the Investment Consulting Department at the Banque Saudi Fransi in Jeddah during the year 1988G. • Assistant Portfolio Manager at Banque Saudi Fransi in Jeddah from 1987G to 1988G. • Credit officer at the Saudi Fransi Bank in Riyadh from 1984G to 1987G. • Member of the Board of Directors at Gulf Finance Company in Riyadh from 2019G to 2023G, which is a closed joint stock company working in the field of finance. • Member of the Board of Directors of Shuaa Wadi Al-Huda Real Estate Fund in Riyadh from 2016G to 2023G, which is a real estate fund managed by Shuaa Capital Saudi Arabia, a closed joint stock company working in the field of providing financial services under the supervision of the Capital Market Authority. • Member of the Board of Directors of Hotel Funds at Shuaa Capital Saudi Arabia in Riyadh from 2010G to 2023G, which is a closed joint stock company working in the field of providing financial services under the supervision of the Capital Market Authority. • Member of the Board of Directors of Shuaa Capital Saudi Arabia in Riyadh from 2008G to 2023G, which is a closed joint stock company operating in the field of providing financial services under the supervision of the Capital Market Authority.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • Member of the Board of Directors of Yamam Al-Mustaqbal Company in Riyadh since 2021G, which is a limited liability company working in the field of real estate development. • Member of the Board of Directors of Acacia Real Estate Development Company in Lebanon since 2015G, which is a limited liability company working in the field of real estate development. • Member of the Board of Directors of Al Bani Real Estate Development Company in Riyadh since 2013G, which is a limited liability company working in the field of real estate development. • Member of the Board of Directors of United Shareholders Company in Lebanon since 2010G, which is a limited liability company operating in the field of financial services. • Member of the Board of Directors of Quintillion Hotels UK (Home House) in the United Kingdom since 2009G, which is a limited liability company working in the field of hotel services.

Source: Avalon Pharma Company

Table No. (93): Biography of a member of the Nominations and Remuneration Committee

Name:	Ahmad Shaher Ahmad Al-Tabbaa
Age:	52 years
Position:	Member of the Nominations and Remuneration Committee
Date of appointment:	28/07/1444H (corresponding to 19/02/2023G)
Nationality:	Saudi
Academic qualifications:	<ul style="list-style-type: none"> • He holds a bachelor's degree in economics from the American University in Washington State, USA, in 1994.
Practical experiences:	<ul style="list-style-type: none"> • Founder and Chairman of the Board of Directors of the Middle East Distribution Company in Riyadh from 2000G to 2018G, which is a limited liability company working in the field of distributing health products and medicines • Chairman of the Board of Directors of the Riyadh Renewable Energy Company in the city of Riyadh from 2017G to 2021G, which is a limited liability company working in the field of providing renewable energy. • Founder and Chairman of the Board of Directors of the First Pharmaceutical Company in Riyadh from 2003G to 2005G, which is a limited liability company working in the field of investing in and operating pharmacies. • Founder and Chairman of the Board of Directors of the Middle East Machinery Company in Riyadh from 1998G to 2000G, which is a limited liability company working in the field of manufacturing and packaging of the pharmaceutical, food and water industries.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • Deputy Chairman of the Board of Directors of the Jordanian Saudi E-Commerce Company in Jordan since 2006G, which is a limited liability company working in online retail.

Source: Avalon Pharma Company

Table No. (94): Biography of a member of the Nominations and Remuneration Committee

Name:	Yanal Muwaffaq Sadiq Al-Saudi
Age:	60 years
Position:	Member of the Nominations and Remuneration Committee
Date of appointment:	28/07/1444H (corresponding to 19/02/2023G)
Nationality:	Jordanian
Academic qualifications:	<ul style="list-style-type: none"> • He holds a Bachelor's degree in Business Administration from the University of Oklahoma in Oklahoma, USA, in 1985G. • He holds a Certified Public Accountant (CPA) certificate from the Board of Accountants in the State of Alaska, USA, in 1992G.
Practical experiences:	<ul style="list-style-type: none"> • Executive audit manager at Ernst & Young & Partners in Riyadh from 2002G to 2022G. • Director responsible for the Audit Services Department - Riyadh at Ernst & Young & Partners in Riyadh from 2013 AD to 2017G. • Director responsible for the Independence Department (Risk Management) - Middle East and North Africa region at Ernst & Young & Partners in Riyadh from 2013G to 2016G. • Chief auditor at Arthur Anderson & Partners in Jordan from 1996G to 2001G. • Auditor at Arthur Anderson & Co. in Jordan from 1989G to 1995G. • Member of the Partners Advisory Board - Europe and the Middle East region at Ernst & Young & Partners in Riyadh from 2014G to 2018G. • Chairman of the Audit Committee at Rafal Real Estate Development Company in Riyadh since 2022G. • Chairman of the Audit Committee at Hana Food Industries Company in Riyadh since 2022G. • Member of the Audit Committee of the Saudi Reinsurance Company in Riyadh since 2023G.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • None

Source: Avalon Pharma Company

5-7 The Executive Management

The Middle East Pharmaceutical Industries Company has a number of main departments that work to manage and develop the Company's business, each according to its role. Each department must implement the duties and tasks that fall under its responsibility to activate the Company's overall performance and achieve the Company's vision, mission, goals, and strategies in the short and long term.

5-7-1 The Company's Main Departments and Tasks

5-7-1-1 Finance Department

- Supervising the operation of the financial systems of the Company, factories and branches and interconnecting their financial activities.
- Working and coordinating with the executive management team and operations department to develop strategic plans regarding sales, factory expenses, research and development work, etc.
- Supervising the preparation of budgets and balance sheets, following up on the Company's cash flows, and providing the Board of Directors with periodic reports thereon.
- Analyzing working capital and consider balances, debts and invoices related to customers to avoid future cash flow problems.
- Updating and implementing all relevant business and accounting policies.
- Reviewing and approving the items of the monthly, quarterly and annual financial reports after presenting them to the Board of Directors.
- Working with auditors to achieve the highest levels of corporate governance.
- Collecting funds and using them effectively and profitably at the lowest cost and finding ways to work on organizing the Company's liquidity.
- Coordinating with banks regarding the Company's accounts, financing services, etc.
- Working to secure appropriate returns for the Company's shareholders on invested funds in accordance with market prices, the extent of shareholders' prospects, and the ability to achieve gains.

5-7-1-2 Operations Department

- Working to manage daily operational and manufacturing operations to develop and implement the Company's strategy in cooperation with other executive departments.
- Continuous review and evaluation of the Company's work methods and procedures.
- Monitoring the work of factories and departments that fall under operations management and ensuring that they follow the relevant regulatory policies and procedures.
- Monitoring the work of the Research and Development Department and following up on work related to product files at the Food and Drug Authority.
- Establishing standards to measure the efficiency of work in the Company.
- Developing a plan that clarifies customer priorities, employees and organizational needs.
- Submitting periodic reports to the CEO regarding manufacturing operations and related work.

5-7-1-3 Administrative Affairs Department

- Working to implement the decisions and recommendations issued by the CEO's administration related to administrative affairs and following them up.
- Preparing manuals and regulations for administrative affairs and amending internal procedures and policies followed within the Company.
- Providing periodic studies on the functional and administrative structure and proposals on developing the administrative organization.
- Supervising human resources departments and following up on personnel affairs work.
- Carrying out the work of the public registry and administrative communications and following up on them.
- Raising the level of job performance and controlling work within departments and divisions.

5-7-1-4 Human Resources Department

- Managing and supervising the laws, regulations and systems stipulated by the Company regarding employee affairs.
- Determining the Company's needs for jobs, employees, and labor and following up on matters related to them.
- Describing, classifying and arranging jobs, implementing employee performance evaluation procedures, and undertaking recruitment procedures.
- Managing and updating employee databases and organizing the affairs of workers and employees in a way that does not conflict with the laws.
- Providing studies on the job structure and proposals on developing the administrative organization.
- Supervising the organization and scheduling of periodic training courses to improve employee performance.
- Preparing employee payrolls and entitlements and submitting them to Finance Department.

5-7-1-5 Internal Audit Department

- Working in accordance with the comprehensive audit plan approved by the Audit Committee and updated annually.
- Preparing reports on its work and submitting them to the Board of Directors and the Audit Committee on a periodic basis that includes an evaluation of the Company's internal control system, results and recommendations.
- Determining control and supervision procedures for financial affairs, investments, and risk management.
- Evaluating the development of risk factors in the Company and existing systems to confront radical or unexpected changes.
- Studying the extent of the Company's compliance with internal control systems when identifying and managing risks and identifying obstacles in applying and addressing internal control.

5-7-1-6 Compliance Department

- Developing the main objectives, policies and plans for compliance management for the Company's factories and all other departments in accordance with operational plans and executive programs.
- Following up on all developments and amendments regarding compliance and compliance for all departments in the Company.
- Identifying risks and aspects of non-compliance, working to address and avoid them, and developing policies related to corrective measures in the event of any violations.
- Developing and preparing summaries and reports that show the level of compliance with the relevant rules and regulations and presenting them to the executive management, informing them of the various challenges and developments and proposing solutions and appropriate corrective measures.
- Preparing and organizing training courses to enhance the culture of compliance within the Company and increase awareness about compliance with relevant rules and regulations.

5-7-1-7 Marketing Department

- Developing marketing strategies for the Company, following them up and monitoring their performance.
- Identifying multiple and different promotional channels in order to increase the Company's sales and achieve its profitability goals.
- Working to upgrade the reputation of the Company and its products and promote brands through planning marketing activities with the aim of:
 - Increasing brand awareness.
 - Attracting new customers while maintaining existing customers.
 - Increasing the Company's sales, revenues and returns.
 - Increasing the Company's share in the current market and introducing it to new markets.
- Conducting marketing research and market studies on an ongoing basis to determine the needs and desires of target customers, the advantages enjoyed by competitors' services and products, identifying competitors' weaknesses and analyzing the company's strengths and weaknesses.
- Contribute to the process of pricing products and the market situation in terms of alternative and complementary products, economic situation and customer expectations.
- Assist in the development of distribution strategies and the spread of products inside and outside the Kingdom.

5-7-1-8 Sales Department

- Creating strategies and developing effective plans that help achieve the Company's goals regarding sales, expansion, and the markets in which it operates.
- Ensuring that the goals pursued by the Company's executive management are realistic and implementable.
- Proposing means to help promote products and brands to expand the customer base, which will reflect positively on the Company's business.
- Determining the characteristics of potential customers and looking for ways to attract new customers to the Company.
- Providing effective after-sales services to maintain customers and their loyalty to the Company, and enhancing customer relations.

5-7-1-9 Medical Affairs Department

- Develop work plans and mechanisms for preparing and updating systems and regulations for regulating and monitoring the various types of medicines and products manufactured by the Company.
- Establishing principles and controls to manage and direct operations and improve productivity.
- Strengthening relationships with internal and external partners to ensure the provision of services according to the best standards.
- Developing programs that promote continuous learning, development, training and motivation of work teams to ensure the provision of services of the highest quality.
- Periodic follow-up of performance indicators, preparing reports on the department's achievement rates and submitting them to the executive management.
- Supervising the technical and professional evaluation of good storage and pharmaceutical import practices for medical warehouses.
- Supervising the technical and professional evaluation of good manufacturing practice for medical factories.

5-7-1-10 Business Development Department

- Identifying new business opportunities including potential markets.
- Communicating with officials in various institutions and companies.
- Attracting projected customers and conducting marketing calls and interviews.
- Cooperating with the Marketing Department to study customer needs, determining appropriate products and services, and discussing promotional strategies and activities.
- Clearly defining goals and defining development and business improvement procedures.
- Preparing and implementing strategic business development plans and monitoring operational changes.
- Coordinating contracting with customers and organizing work with the sales management team.
- Following up on the markets and provide innovative ways to develop the Company's business.
- Continuously review market trends and keep pace with changes.

5-7-1-11 Information Technology Department

- Supervising all of the Company's technological systems, including the integrated SAP ERP administrative program that the Company uses, and contributing to developing a protocol that regulates the work of the various departments and divisions.
- Following up on the technical systems of factories, manufacturing and storage processes.
- Providing direct and indirect technical support in order to design a strong network system that is difficult to penetrate.
- Studying the technical solutions used and suggesting their development or using new or alternative programs.
- Supervising maintenance work for all electronic devices and the communications network.
- Supervising the performance of the technical system, monitoring networks, detecting any hacking attempts, and ensuring data protection.

5-7-1-12 Department of the Scientific Office, Regulatory and Governmental Affairs and Compliance

- Ensure that the quality of the Company's products that are traded and marketed in the Saudi market is consistent and maintained, in coordination with the operations and factories management.
- Commitment to implementing the regulations and requirements of the Food and Drug Authority, the Ministry of Health, and other local and international bodies.
- Commitment to the regulations and regulations of transparency and disclosure of all matters that are directly related to the Food and Drug Authority, NUPCO, the Ministry of Health, the Ministry of Industry, the Local Content and Government Procurement Authority and other government agencies, and applying those regulations to all departments of the Company.
- Follow up on the availability of the Company's products in the Saudi and foreign markets and not interrupt them.
- Ensuring the regularity of commercial contracts and the availability of all regulatory requirements with suppliers and customers.
- Ensure that any of the Company's products are not traded unless it is registered with the Food and Drug Authority and follow up on renewing the certificates of registered products.
- Ensure that no modifications are made to the products before obtaining official approvals from the relevant government agencies, especially the Saudi Food and Drug Authority.
- Submitting new product files to the Food and Drug Authority and all other relevant government agencies.

5-7-2 Members of the Executive Management

The following table shows the members of the Company's Executive Management:

Table No. (95): The Company's Executive Management

	Name	Position	Nationality	Age	Date of Joining the Company	Date of appointment to current position	Direct ownership percentage	Indirect ownership percentage
1	Mohammed Maher MohammedLotfi Al-Ghannam	CEO	Sant Kitts and Navis	43	01/09/2000G	05/09/2018G	-	-
2	Rasheed Abdulaziz Mohammed Al Rasheed	COO	Saudi	51	14/04/2003G	18/06/2023G	-	-
3	Khaled MohammedAdnan Qasim Abu Al-Rub	CFO	Jordanian	48	01/09/2006G	01/03/2019G	-	-
4	Mohammed Abdul-Ali Mallouh Al-Mutairi	Director of Medical Affairs	Saudi	40	07/03/2022G	07/03/2022G	-	-
5	Wahbi Ahmad Wahbi Sindi	Director of the Scientific Office, Regulatory, Governmental Affairs and Compliance	Saudi	43	01/01/2018G	01/01/2018G	-	-
6	Hamoud Desan Mohammed Al-Anazi,	Executive Director of Administrative Affairs	Saudi	46	01/08/2011G	01/01/2019G	-	-
7	Zahra Nasser Hashem Al-Salman	Director of Human Resources	Saudi	38	18/06/2023G	18/06/2023G	-	-
8	Fayez Bassem Fayez Awada	Marketing Manager	Jordanian	38	06/08/2022G	06/08/2022G	-	-
9	Mohammed Ibrahim Metwally Salama	Vice President of Sales	Egyptian	42	28/08/2022G	28/08/2022G	-	-
10	Wael Madbouly Demerdash Hassanein	Director of Internal Audit	Egyptian	39	27/02/2023G	27/02/2023G	-	-
11	Mohammed Marzouq Mohammed Al-Maitiq	Director of Compliance	Saudi	38	18/06/2023G	18/06/2023G	-	-
12	Amal Mohammed Ali Al-Jawzo	Business Development Manager	Lebanese	56	27/10/2022G	27/10/2022G	-	-
13	Hisham Hamdan Suleiman Barhoum	Director of Information Technology	Jordanian	49	01/01/2023G	01/01/2023G	-	-

Source: Avalon Pharma Company

Below is a summary of the biographies of members of the Executive Management:

Table No. (96): Member of the Executive Management

Name:	Mohammed Maher MohammedLotfi Al-Ghannam
Age:	43 years
Position:	CEO
Date of appointment:	01/09/2000G
Nationality:	Saint Kitts and Nevis
Academic qualifications:	<ul style="list-style-type: none"> • He holds a Master's degree in Business Administration from Central California University in California, USA, in 2018G. • He holds a Bachelor's degree in Business Administration from Damascus University in Syria in 2009G.
Practical experiences:	<ul style="list-style-type: none"> • Managing Director and CEO of the Middle East Pharmaceutical Industries Company in Riyadh since 2022G. • CEO of the Middle East Pharmaceutical Industries Company in Riyadh from 2018G to 2022G. • Director of Operations at the Middle East Pharmaceutical Industries Company in Riyadh from 2016G to 2018G. • Director of Human Resources and Logistics Services at the Middle East Pharmaceutical Industries Company in Riyadh from 2006G to 2015G. • Director of Purchasing and Logistics Services at the Middle East Pharmaceutical Industries Company in Riyadh from 2000G to 2006G.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • None

Source: Avalon Pharma Company

Table No. (97): Member of the Executive Management

Name:	Rasheed Abdulaziz Mohammed Al Rasheed
Age:	51 years
Position:	COO
Date of appointment:	14/04/2003G
Nationality:	Saudi
Academic qualifications:	<ul style="list-style-type: none"> • He holds a Bachelor's degree in Pharmacy from King Saud University in Riyadh in 2001G. • He obtained a licensing certificate in pharmacy and pharmaceutical technology from the Saudi Commission for Health Specialties in the city of Riyadh in 2003.
Practical experiences:	<ul style="list-style-type: none"> • Chief Operating Officer (COO) at the Middle East Pharmaceutical Industries Company in Riyadh since 2023G. • Technical Director and Manufacturing Director at the Middle East Pharmaceutical Industries Company in Riyadh from 2018G to 2023G. • Registration Manager at the Middle East Pharmaceutical Industries Company in Riyadh from 2004G to 2018G. • Technical director at the Middle East Pharmaceutical Industries Company in Riyadh during the year 2003G. • Sales representative at MSD Pharmaceutical Manufacturing Company in Riyadh from 2002G to 2003G. • Sales representative at Oracle Company in Riyadh from 2001G to 2002G.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • None

Source: Avalon Pharma Company

Table No. (98): Member of the Executive Management

Name:	Khaled MohammedAdnan Qasim Abu Al-Rub
Age:	48 years
Position:	Chief Financial Officer (CFO)
Date of appointment:	01/09/2006G
Nationality:	Jordanian
Academic qualifications:	<ul style="list-style-type: none"> • He obtained a Master's degree in Business Administration from UCSI University in Malaysia in 2021G. • He holds a bachelor's degree in accounting from Yarmouk University in Jordan in 1997G. • He holds a Certified Cost Accountant (CCA) certificate from the Certified Cost and Management Institute in the United States of America in 2007G. • He holds a Certified Public Accountant (CPA) certificate from the Board of Laboratory Examiners in Illinois, USA, in 2005G.
Practical experiences:	<ul style="list-style-type: none"> • Chief Financial Officer at the Middle East Pharmaceutical Industries Company in Riyadh since 2019G. • Financial Director at the Middle East Pharmaceutical Industries Company in Riyadh from 2006G to 2018G. • Financial Director at Al-Client Company Limited in Riyadh from 1999G to 2006G. • Auditor at the Joint Accountants Office (BDO) in Riyadh from 1998G to 1999G.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • None

Source: Avalon Pharma Company

Table No. (99): Member of the Executive Management

Name:	Mohammed Abdul-Ali Mallouh Al-Mutairi
Age:	40 years
Position:	Director of Medical Affairs
Date of appointment:	07/03/2022G
Nationality:	Saudi
Academic qualifications:	<ul style="list-style-type: none"> • He holds a PhD in Pharmacy from the Massachusetts College of Pharmacy and Health Sciences in Massachusetts, USA, in 2016G. • He holds a master's degree in pharmaceutical analysis and quality control from King's University in the United Kingdom in 2009G. • He holds a Bachelor's degree in Pharmaceutical Sciences from King Saud University in Riyadh in 2007G. • He holds a certificate in Project Management (PMP) from the Project Management Institute in Pennsylvania, USA, in 2020G.
Practical experiences:	<ul style="list-style-type: none"> • Director of Medical Affairs at the Middle East Pharmaceutical Industries Company in Riyadh since 2022G. • Head of the changes and re-registration division at the Food and Drug General Authority in the city of Riyadh from 2007G to 2022G. • Pharmacist at the Security Forces Hospital in Riyadh during 2007G.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • None

Source: Avalon Pharma Company

Table No. (100): Member of the Executive Management

Name:	Wahbi Ahmad Wahbi Sindi
Age:	43 years
Position:	Director of the Scientific Office Department, Regulatory, Governmental Affairs and Compliance
Date of appointment:	01/01/2018G
Nationality:	Saudi
Academic qualifications:	<ul style="list-style-type: none"> • He holds a Bachelor's degree in Pharmaceutical Sciences from King Saud University in Riyadh in 2006G. • He holds a certificate of certified quality ambassador from the Saudi Standards Authority in the city of Riyadh in 2021G. • He holds a pharmacist's certificate licensed to practice the profession from the Saudi Ministry of Health in the city of Riyadh in 2007G. • He holds a practicing pharmacist certificate (SCFSH) from the Saudi Commission for Health Specialties in Riyadh in 2006G.
Practical experiences:	<ul style="list-style-type: none"> • Director of the Scientific Office, Regulatory and Governmental Affairs and Compliance at the Middle East Pharmaceutical Industries Company in Riyadh since 2018G. • Director of the Scientific Office and Regulatory Affairs Department at the Middle East Pharmaceutical Industries Company in Riyadh during the year 2018G. • Deputy Director of the Regulatory Affairs Department for the Saudi market and foreign markets at Riyadh Pharma Company in the city of Riyadh from 2016G to 2017G. • Director of the Scientific Office, Regulatory Affairs and Pharmacovigilance for the Saudi market and foreign markets at Pharma Science Company in Riyadh from 2013G to 2016G. • Director of the Scientific Office, Regulatory Affairs, Government Tenders and Pharmacovigilance for the Saudi market and foreign markets at Aspen Pharmacare Pharmaceutical Company in Riyadh from 2012G to 2013G. • Registration Manager for the Saudi market and foreign markets at AstraZeneca in Riyadh from 2011G to 2012G. • Regulatory Affairs Assistant for the Saudi market and foreign markets at Spimaco Pharmaceutical Company in Riyadh from 2007G to 2011G. • Hospital offers coordinator at Al-Hayat Medical Company in Riyadh from 2006G to 2007G. • Member of the Scientific Committee of the International Federation for the Regulation of Cosmetic Products since 2021G. • Member of the National Committee for Local Pharmaceutical Factories in Riyadh since 2018G. • Member of the Saudi Pharmaceutical Society in Riyadh since 2006G.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • None

Source: Avalon Pharma Company

Table No. (101): Member of the Executive Management

Name:	Hamoud Desan Mohammed Al-Anzi
Age:	46 years
Position:	Executive Director of Administrative Affairs
Date of appointment:	01/08/2011G
Nationality:	Saudi
Academic qualifications:	<ul style="list-style-type: none"> • He holds a master's degree in human resources management from Anglia Ruskin University, Cambridge, in the United Kingdom, in 2023. • He holds a Bachelor's degree in Business Administration from Columbia University in the United Arab Emirates in 2013.
Practical experiences:	<ul style="list-style-type: none"> • Practical experiences: - Executive Director of Administrative Affairs at the Middle East Pharmaceutical Industries Company in Riyadh since 2023G. • Director of Human Resources and Administrative Affairs at the Middle East Pharmaceutical Industries Company in Riyadh from 2019G to 2023G. • Administrative Manager at the Middle East Pharmaceutical Industries Company in Riyadh from 2014G to 2019G. • Public Relations Manager at the Middle East Pharmaceutical Industries Company in Riyadh from 2011G to 2014G. • Administrative Manager at Pioneers Holding Company in Riyadh from 2009G to 2011G.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • None

Source: Avalon Pharma Company

Table No. (102): Member of the Executive Management

Name:	Zahra Nasser Hashem Al-Salman
Age:	38 years
Position:	Director of Human Resources
Date of appointment:	18/06/2023G
Nationality:	Saudi
Academic qualifications:	<ul style="list-style-type: none"> • She holds a master's degree in curricula and teaching methods from the University of South Florida in Florida, USA, in 2014G. • She holds a Bachelor's degree in Education from King Faisal University in Al-Ahsa in 2009G. • She holds a certified professional certificate from the Society for Human Resources Management - American Association in Washington State, United States of America, in 2021G.
Practical experiences:	<ul style="list-style-type: none"> • Director of Human Resources at the Middle East Pharmaceutical Industries Company in Riyadh since 2023G. • Director of Human Resources at Al-Mousa Health Group in Al-Ahsa City from 2019G to 2023G. • Director of Personnel Affairs at Al-Jamal Corner Complex Company in the city of Al-Ahsa from 2016G to 2017G.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • None

Source: Avalon Pharma Company

Table No. (103): Member of the Executive Management

Name:	Fayez Basem Fayez Awada
Age:	38 years
Position:	Marketing Director
Date of appointment:	06/08/2022G
Nationality:	Jordanian
Academic qualifications:	<ul style="list-style-type: none"> • He holds a master's degree in management and marketing from Murdoch University in Australia in 2011G. • He holds a bachelor's degree in management and marketing from the American University in the United Arab Emirates in 2007G.
Practical experiences:	<ul style="list-style-type: none"> • Marketing Director at the Middle East Pharmaceutical Industries Company in Riyadh since 2022G. • Marketing Director for the Middle East and North Africa region at Johnson & Johnson in the United Arab Emirates from 2019G to 2022G. • Marketing Director at GlaxoSmithKline in the United Arab Emirates from 2013 to 2019G. • Brand Manager at Novartis in the United Arab Emirates from 2007 to 2013.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • None

Source: Avalon Pharma Company

Table No. (104): Member of the Executive Management

Name:	Mohammed Ibrahim Metwally Salama
Age:	42 years
Position:	Vice President of Sales
Date of appointment:	28/08/2022G
Nationality:	Egyptian
Academic qualifications:	<ul style="list-style-type: none"> • He holds a Master's degree in Business Administration from Harput Watt University in the United Kingdom in 2020G. • He holds a Bachelor's degree in Oral and Dental Medicine and Surgery from Ain Shams University in Egypt in 2006G.
Practical experiences:	<ul style="list-style-type: none"> • Vice President of Sales at the Middle East Pharmaceutical Industries Company in Riyadh since 2022G. • Regional Director at Johnson & Johnson in the United Arab Emirates from 2020G to 2022G. • Regional General Manager at L'Oréal Middle East in the United Arab Emirates from 2015G to 2020G. • Director of Medical Advertising at GSK in the United Arab Emirates from 2014G to 2015G. • Sales Manager at Novartis in the United Arab Emirates from 2011G to 2014G. • Sales Manager at Abbott in Egypt from 2007G to 2011G.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • None

Source: Avalon Pharma Company

Table No. (105): Member of the Executive Management

Name:	Wael Madbouly Demerdash Hassanein
Age:	39 years
Position:	Director of Internal Audit
Date of appointment:	27/02/2023G
Nationality:	Egyptian
Academic qualifications:	<ul style="list-style-type: none"> • He holds a bachelor's degree in accounting from Cairo University in Egypt in 2005G. • He obtained the Certified Internal Auditor «CIA» certificate from the Institute of Internal Auditors in the United States of America in 2020G. • He obtained the «Certified Management Accountant» (CMA) certificate from the Institute of Management Accountants in the United States of America in 2013G.
Practical experiences:	<ul style="list-style-type: none"> • Director of Internal Audit at the Middle East Pharmaceutical Industries Company since 2023G. • Director of Internal Audit at the Saudi Manpower Solutions Company in Riyadh from 2022G to 2023G. • Director of Internal Audit at Al-Jazeera Support Services Company in Al-Khobar from 2019 to 2022. • Supervisor of Internal Audit sector at Al-Kifah Holding Company in the city of Al-Khobar from 2014G to 2018G. • Senior Manager of Auditors at Mazars Accounting Auditing Office in Cairo, Egypt from 2009G to 2014G. • Auditor at Dr. Raouf Auditing and Tax Company in Cairo, Egypt from 2007G to 2009G. • Auditor at IBSF, Orascom Group in Cairo, Egypt, from 2005G to 2007G.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • None

Source: Avalon Pharma Company

Table No. (106): Member of the Executive Management

Name:	Mohammed Marzouq Mohammed Al-Maitiq
Age:	38 years
Position:	Compliance Director
Date of appointment:	18/06/2023G
Nationality:	Saudi
Academic qualifications:	<ul style="list-style-type: none"> • He holds a bachelor's degree in public administration from King Abdulaziz University in Jeddah in 2012G. • He holds a certificate of passing the Professional Disclosure Test - Saudi Tadawul Company from the Financial Academy in Riyadh in 2023G. • He holds a certificate of passing the Advanced Qualifying Test in the field of Conformity and Commitment from the Financial Academy in Riyadh in 2018G. • He obtained the Certificate of Conformity, Commitment and Anti-Money Laundering and Combating the Financing of Terrorism «CME2» from the Financial Academy in Riyadh in 2014G. • He holds a Certificate in Securities Dealing «CME1» from the Financial Academy in Riyadh in 2009G.
Practical experiences:	<ul style="list-style-type: none"> • Director of Compliance at the Middle East Pharmaceutical Industries Company in Riyadh since 2023G. • Director of Conformity and Compliance at Al-Anmaa Investment Company in Riyadh from 2014G to 2023G. • Gulf and International Stock Broker at Al Rajhi Capital Company in Riyadh from 2013G to 2014G. • Operations Processor at Saudi Fransi Capital Company in Al-Khobar from 2008G to 2013G.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • None

Source: Avalon Pharma Company

Table No. (107): Member of the Executive Management

Name:	Amal Mohammed Ali Al-Jawzo
Age:	56 years
Position:	Business Development Manager
Date of appointment:	27/10/2022G
Nationality:	Lebanese
Academic qualifications:	<ul style="list-style-type: none"> • She holds a Master's degree in Business Administration from the American University of Beirut in Lebanon in 2011G. • She holds a Bachelor of Science degree in Pharmacy from the Massachusetts College of Pharmacy and Health Sciences in Boston, USA, in 1991G.
Practical experiences:	<ul style="list-style-type: none"> • Business Development Manager at the Middle East Pharmaceutical Industries Company in Riyadh since 2022G. • Director of Operations at ODD Company in the United Arab Emirates from 2020G to 2022G. • Executive Director at SMTS Company in Lebanon from 2015G to 2020G. • Administrative Manager at Ultima Pharmaceutical Company in Lebanon from 2011G to 2015G. • Executive Director at the Macromed Center for Pharmaceutical Marketing and Distribution in Lebanon from 2004G to 2011G. • Therapist and Educator of diabetes patients at the Trillium Health Center in Lebanon from 2003G to 2004G. • Director of Pharmacy at Al-Darif Health Center in Lebanon from 2001G to 2002G. • Pharmacist at the American University Hospital in Lebanon from 1998G to 2000G.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • None

Source: Avalon Pharma Company

Table No. (108): Member of the Executive Management

Name:	Hisham Hamdan Suleiman Al-Barhoum
Age:	49 years
Position:	Director of Information Technology
Date of appointment:	01/01/2023G
Nationality:	Jordanian
Academic qualifications:	<ul style="list-style-type: none"> • He holds a Bachelor's degree in Electronics and Communications Engineering from the University of Baghdad in Iraq in 1998. • He obtained the European Quality Standards (GDPR) certificate from the Malta-Clemson Institute in Malta in 2022G. • He obtained the ISO QMC application certificate from LRQA Company in Al-Khobar in 2016G. • He holds a certificate in planning and managing Microsoft Windows servers from Microsoft in Jordan in 2004G.
Practical experiences:	<ul style="list-style-type: none"> • Director of Information Technology at the Middle East Pharmaceutical Industries Company in Riyadh since 2023G. • Executive Director of Information Technology at the American University of Malta from 2019 to 2022. • Executive Director of Information Technology at Romoz Group of Companies in the city of Al-Ahsa from 2017G to 2019G. • Director of the Information Technology Department and Operations Department at the Bandariya Group of Companies in the city of Khobar from 2014G to 2017G. • Director of Information Technology and Business Solutions at PepsiCo International in Jordan from 2008G to 2013G. • Director of Information Technology at Agility Logistics in Jordan from 2005G to 2008G. • Information Technology Department Officer at Horizons Company in Qatar from 2002G to 2005G.
Memberships on other Boards of Directors	<ul style="list-style-type: none"> • None

Source: Avalon Pharma Company

5-8 Employment contracts with the CEO, CFO, and other members of Executive Management

The following table shows a summary of the employment contracts concluded between the Company and the CEO, the CFO, and other members of the Executive Management, which stipulate their salaries and bonuses according to their qualifications and experiences:

Table No. (109): Summary of contracts concluded with members of the Company's Executive Management

	Name	Position	Nationality	Date of appointment to current position	Date of signing the contract	Date of expiration of the contract
1	Mohammed Maher MohammedLotfi AL-Ghannam	CEO	Saint Kitts and Navis	05/09/2018G	01/01/2022G	01/01/2025G renewed automatically
2	Rasheed Abdulaziz Mohammed AL-Rasheed	Chief Operations Officer	Saudi	18/06/2023G	01/07/2023G	Unspecified term
3	Khaled MohammedAdnan Qasim Abu Al-Rub	Chief Financial Officer	Jordanian	01/03/2019G	01/09/202G	01/09/2023G renewed automatically
4	Mohammed Abdul-Ali Mallouh AL-Mutairi	Manager of Medical Affairs	Saudi	07/03/2022G	07/03/2022GG	Unspecified term
5	Wahbi Ahmad Wahbi Sindi	Manager of the Scientific Office, Regulatory, Governmental Affairs and Compliance	Saudi	01/01/2018G	01/01/2018G	Unspecified term
6	Hamoud Deisan Mohammed AL-Anazi	Executive Director of Administrative Affairs	Saudi	18/06/2023G	01/08/2021G	Unspecified term
7	Zahra Nasser Hashem AL-Salman	Director of Human Resources	Saudi	18/06/2023G	17/07/2023G	Unspecified term
8	Fayez Basem Fayez Awada	Marketing Manager	Jordanian	06/08/2022G	06/08/2022G	06/08/2024G renewed automatically
9	Mohammed Ibrahim Metwally Salama	Vice President of Sales	Egyptian	28/08/2022G	28/08/2022G	28/08/2024G renewed automatically
10	Wael Madbouly Demirdash Hassanein	Manager of Internal Audit	Egyptian	27/02/2023G	27/02/2023G	26/02/2024G
11	Mohammed Marzouq Mohammed AL-Maitiq	Manager of Compliance	Saudi	18/06/2023G	04/06/2023G	Unspecified term
12	Amal Mohammed Ali AL-Jawzo	Business Development Manager	Lebanese	27/10/2022G	27/10/2022G	26/01/2024G
13	Hisham Hamdan Suleiman Barhoum	Manager of Information Technology	Jordanian	01/01/2023G	01/01/2023G	31/12/2023G

Source: Avalon Pharma Company

5-9 Bankruptcy and insolvency cases for members of the Board of Directors and Executive Management

The members of the Board of Directors declare that there are no bankruptcies of members of the Board of Directors, members of the Executive Management, or the Secretary of the Board of Directors as of the date of this Prospectus. The members of the Board of Directors also declare that there are no cases of insolvency in the previous five years of a Company in which any of the members of the Board of Directors, members of the Executive Management, or the Secretary of the Board of Directors was appointed by the insolvent Company to an administrative or supervisory position.

5-10 The direct and indirect interests of members of the Board of Directors and Executive Management

The members of the Board of Directors declare that none of the members of the Board of Directors, the Executive Management, the Secretary of the Board of Directors, or any of their relatives has any direct or indirect interest in the Company's shares and debt instruments and any interest in any other matter that could affect the Company's business, except for what has been disclosed below and in Section No. (5-5) «**Board of Directors**» and Section No. (12-6-1) «**Related Party Contracts and Transactions**» of this Prospectus.

The members of the Board of Directors declare that, as of the date of this Prospectus, the members of the Company's Board of Directors do not engage in any business competing with the Company's business in accordance with Article (71) of the Companies Law.

The members of the Board of Directors also declare that none of the members of the Board of Directors, senior executives, the Secretary of the Board of Directors, or any of their relatives has an interest in any contract or arrangement in effect or to be concluded as of the date of this Prospectus in the Company's business, except for what was disclosed in the table below and in Section No. (12-6-1) «**Related Party Contracts and Transactions**» of this Prospectus.

Except for what is mentioned below, the members of the Board of Directors declare that none of the members of the Board of Directors or members of the Executive Management own any shares in the Company, directly or indirectly, as of the date of this Prospectus.

The following table shows the percentage of direct and indirect ownership of members of the Board of Directors and members of Executive Management in the Company before and after the offering.

Table No. (110): Percentage of direct and indirect ownership of members of the Board of Directors and members of Executive Management in the Company before and after the offering

	Name	Position	Percentage of direct ownership		Percentage of indirect ownership*	
			Before the offering	After the offering	Before the offering	After the offering
1	Ahmad Shafer Ahmad Al-Tabbaa	Chairman of the Board of Directors	-	-	30.7275%	21.5093%
2	Hisham Mohammed Mahmoud Attar	Deputy Chairman of the Board of Directors	-	-	-	-
3	Mohammed Maher Mohammed Lotfi Al-Ghannam	Managing Director and CEO	-	-	-	-
4	Faisal Suleiman Mohammed Al-Jamaan	Member of the Board of Directors	-	-	2.5000%	1.7500%
5	Omar Mohammed Saeb Abdul Qader Al-Jaroudi	Member of the Board of Directors	-	-	-	-

Source: Avalon Pharma Company

* The indirect ownership of Mr. Ahmad Shafer Ahmad Al-Tabbaa resulted from his direct ownership of 51.0000% in Tabbaa National Holding Company, which owned 60.2500% of the shares of the Middle East Pharmaceutical Industries Company before the offering, and will own 42.1750% after the offering. The indirect ownership of Mr. Faisal Suleiman Mohammed Al-Jamaan resulted from his direct ownership of 100.0000% in Durrat Al-Wadaa Investment Company, which owned 2.5000% of the shares of the Middle East Pharmaceutical Industries Company before the offering, and will own 1.7500% after the offering.

The following table shows the details of agreements and transactions with related parties in which shareholders or members of the Board of Directors and the Company's Executive Management have an interest (see Section No. (12-6-1) «**Related Party Contracts and Transactions**» of this Prospectus).

The Company obtained the approval of the Ordinary General Assembly held on 20/10/1444H (corresponding to 10/05/2023G) on all transactions with related parties. The Company's regular business included transactions with related parties represented by its shareholders on a purely commercial basis without including any preferential terms or transactions.

Table No. (111): Details of agreements and transactions with related parties that have a relationship with shareholders

Agreement/ transaction	Value of the agreement (Saudi riyals)	Shareholders/ members of the board of directors/executive management who have an interest in it	Type of interest	Reason for interest
Legal consultation agreement *	25,000 per month	Faisal Shaheer Ahmad Al-Tabbaa	Direct	Shareholder in the Company

Source: Avalon Pharma Company

* On 01/01/2023G, the Company concluded a consulting agreement with lawyer Mr. Faisal Shaheer Ahmad Al-Tabbaa, one of the Company's shareholders, under which he provides legal advice to the Company and represents it regarding its legal work. The monthly fees were set at (25,000) twenty-five thousand Saudi riyals, and the agreement is open-ended and can be terminated by both parties.

5-11 Remuneration of members of the Board of Directors and Executive Management

The following table shows the total remuneration granted by the Company to members of the Board of Directors, members of committees, and Senior Executive members of the Executive Management, including (the CEO and the CFO) during the fiscal years 2020G, 2021G, and 2022G:

Table No. (112): Remuneration of Board Members and Senior Executives

Saudi Riyals	Fiscal year 2020G	Fiscal year 2021G	Fiscal year 2022G	First Half of 2023G
Board members	-	-	850,000	545,000
Committee members	-	-	300,000	405,000
Senior executives	6,867,288	8,767,275	9,822,257	4,383,935
Total	6,867,288	8,767,275	10,972,257	5,333,935

Source: Avalon Pharma Company

5-12 Corporate Governance

Avalon Pharma obtained the General Assembly's approval of the Company's Governance Bylaws and its approved internal governance regulations and policies in accordance with the Corporate Governance System, the Companies' Law, and the Company's Bylaws. The Company's internal governance regulations and policies include the following:

Table No. (113): The Company's internal governance regulations and policies

Regulations and Policies	Date of Board of Directors recommendation and General Assembly approval	Date of Board of Directors recommendation and General Assembly approval of its last update (if any)
Corporate Governance Regulations	Recommendation of the Board of Directors dated 14/11/1443H (corresponding to 13/06/2022G) and approval of the Ordinary General Assembly on 15/11/1443H (corresponding to 14/06/2022G)	Recommendation of the Board of Directors dated 24/11/1444H (corresponding to 13/06/2023G) and the approval of the Extraordinary General Assembly on 26/11/1444H (corresponding to 15/06/2023G)
Board of Directors' Work Regulations	Recommendation of the Board of Directors dated 24/11/1444H (corresponding to 13/06/2023G) and approval of the Extraordinary General Assembly dated 26/11/1444H (corresponding to 15/06/2023G)	-
Audit Committee's Work Regulations	Board of Directors' recommendation dated 28/07/1444H (corresponding to 19/02/2023G) and Extraordinary General Assembly approval dated 13/08/1444H (corresponding to 05/03/2023G)	Board of Directors' recommendation dated 24/11/1444H (Corresponding to 13/06/2023G) and the approval of the Extraordinary General Assembly on 26/11/1444H (corresponding to 15/06/2023G)
The Nominations and Remuneration Committee's Work Regulations	Board of Directors' recommendation dated 28/07/1444H (corresponding to 19/02/2023G) and approval of the Extraordinary General Assembly dated 13/08/1444H (corresponding to 05/03/2023G)	Board of Directors' recommendation dated 27/02/1445H (corresponding to 12/09/2023G) and the approval of the Extraordinary General Assembly on 28/02/1445H (corresponding to 13/09/2023G)
Dividend Distribution Regulations	Recommendation of the Board of Directors on 24/11/1444H (corresponding to 13/06/2023G) and approval of the Extraordinary General Assembly on 26/11/1444H (corresponding to 15/06/2023G)	-
Policy for regulating Conflicts of Interest	Board of Directors' recommendation dated 24/11/1444H (corresponding to 13/06/2023G) and approval by the Extraordinary General Assembly dated 26/11/1444H (corresponding to 15/06/2023G)	-
Powers policy	Board of Directors' recommendation dated 24/11/1444H (corresponding to 13/06/2023G) and approval by the Extraordinary General Assembly dated 26/11/1444H (corresponding to 15/06/2023G)	-
Code of professional conduct policy	Board of Directors' recommendation dated 24/11/1444H (corresponding to 13/06/2023G) and approval by the Extraordinary General Assembly dated 26/11/1444H (corresponding to 15/06/2023G)	-
Transparency and Disclosure Policy	Board of Directors' recommendation dated 24/11/1444H (corresponding to 13/06/2023G) and approval by the Extraordinary General Assembly dated 26/11/1444H (corresponding to 15/06/2023G)	-
Policy for Submitting Complaints and Reporting Violations	Board of Directors' recommendation dated 24/11/1444H (corresponding to 13/06/2023G) and approval by the Extraordinary General Assembly dated 26/11/1444H (corresponding to 15/06/2023G)	-
Internal Control System	Board of Directors' recommendation dated 24/11/1444H (corresponding to 13/06/2023G) and approval by the Extraordinary General Assembly dated 26/11/1444H (corresponding to 15/06/2023G)	-
Remuneration policy for the Board of Directors and its Committees	Board of Directors' recommendation dated 27/02/1445H (corresponding to 12/09/2023G) and approval by the Extraordinary General Assembly dated 28/02/1445H (corresponding to 13/09/2023G)	-
Nomination Policy for Board Membership	Board of Directors' recommendation dated 27/02/1445H (corresponding to 12/09/2023G) and approval by the Extraordinary General Assembly dated 28/02/1445H (corresponding to 13/09/2023G)	-

Source: Avalon Pharma Company

5-12-1 Compliance with the provisions of the Corporate Governance Regulations

The Company adheres to the mandatory governance requirements applicable to Saudi public joint-stock companies, with the exception of some provisions specific to listed companies, which the Company does not currently adhere to, as its shares are not yet listed on the financial market. These provisions are as follows:

Paragraph (a) of Article Eight (8), related to announcing on the financial market's website information about candidates for membership in the Board of Directors when publishing or directing an invitation to convene the General Assembly.

Paragraph (b) of Article Eight (8), related to limiting voting in the General Assembly to candidates whose information is announced in accordance with Paragraph (a) of Article Eight.

- Paragraph (d) of Article Thirteen (13), related to publishing the invitation to the General Assembly on the Financial Market's website and the Company's website. In addition, the Company may direct the invitation to hold general and private assemblies of its shareholders through modern technological means.
- Paragraph (h) of Article Thirteen (13), relating to registering the data of shareholders wishing to attend the General Assembly meetings.
- Paragraph (c) of Article Fourteen (14) related to making information related to the items of the General Assembly available to shareholders through the website of the financial market and the Company's website, and obtaining information related to the items of the General Assembly's agenda, especially the report of the Board of Directors, the auditor, the financial statements, and the report of the audit committee.
- Paragraph (e) of Article Fifteen (15), which relates to announcing to the public and notifying the Authority and the Financial Market of the results of the General Assembly immediately upon its conclusion.
- Paragraph (d) of Article Seventeen (17) related to notifying the Authority of the names of the members of the Board of Directors, their membership positions, and any changes that occur to their membership within five working days from the date of the change occurrence.
- Article Sixty (60) related to the meetings of the Remuneration Committee, which meets periodically, at least every year, and whenever the need arises.
- Article Sixty-Four (64), related to the meetings of the Nominations Committee, which meets periodically, at least every year, and whenever the need arises.
- Article Sixty-Five (65), which relates to the company publishing the announcement of nomination for membership in the Board of Directors on the Company's website and the website of the financial market in order to invite persons wishing to nominate for membership in the Board, provided that the nomination period remains open for at least one month from the date of the announcement.
- Article Eighty-Six (86), Article Eighty-Seven (87), Paragraph (B) of Article Eighty-Eight (88), Article Eighty-Nine (89), and Article Ninety (90), which relate to disclosure policies and procedures.

The members of the Board of Directors declare that the Company will fully comply with the provisions of the Corporate Governance Regulations as of the date of listing.

5-13 Conflict of interest

Neither the Company's Articles of Association, nor any internal regulations or policies, allow any powers to enable any member of the Board of Directors or the CEO to vote on any contract or proposal in which he has a direct or indirect interest, in accordance with the provisions of Article (71) of the Companies Law. The article stipulates that no member of the Board of Directors must have any direct or indirect interest in the deals and contracts conducted on behalf of the Company, unless the Ordinary General Assembly gives a license for that. This article also stipulates that that member must inform the Board of Directors of his personal interests in the deals and contracts that are made on behalf of the Company, and the Chairman of the Board of Directors, for his part, must inform the General Assembly at its meeting of deals and contracts in which any member of the Board has a personal interest, provided that disclosure of matter as such must be accompanied by a special report from the auditor, and that disclosure must be recorded in the minutes of the Board of Directors meeting. The interested member may not participate in voting on the decision submitted for voting in this regard. Based on the above, members of the Board of Directors must adhere to the following:

- Compliance with the provisions of Articles (71), (72), (73), (74), and (75) of the Companies Law, and the provisions of Articles (44), (45), and (46) of the Corporate Governance Regulations.
- Abstaining from voting on General Assembly decisions related to contracts concluded with the Company where the Board member has a direct or indirect interest in that contract.
- Not to enter into competition with the Company's activities, unless the Board member has a license from the Ordinary General Assembly, allowing him to do so.
- Entering into all transactions with a related party on a competitive basis, in accordance with the text of the Conflict of Interest and Dealings with Related Parties policy.

5-14 Employee Shares

The Company does not have any employee stock programs prior to the application for registration and offering of securities subject to this Prospectus, and none of the Company's employees own shares in the Company and there are no other arrangements involving employees in the Company's capital.



06

Financial Information, Management Discussion and Analysis

6- Financial Information, Management Discussion and Analysis

6-1 Introduction

Financial Information, Management Discussion and Analysis section of Middle East Pharmaceutical Industries Co.- and its subsidiaries (collectively referred to in this section as the «Group») provides an analytical presentation of the Group's operating performance and financial position during the years ending on 31 December 2020G, 2021G, and 2022G and the six-month periods ending on 30 June, 2022G and 2023G. This section and the enclosed clarifications have been prepared based on the audited consolidated financial statements for the fiscal years ending on 31 December 2020G, 2021G, and 2022G, and the clarifications enclosed to them, and the audited consolidated financial statements for the six-month periods ending on 30 June, 2022G, and 2023G, and the clarifications attached to them. The audited consolidated financial statements were reviewed for the fiscal years ending on 31 December 2020G, 2021G, and 2022G, and the audited consolidated financial statements for the six-month periods ending on 30 June 2022G and 2023G, were reviewed by KPMG Professional Consulting Company in accordance with international auditing standards approved in the Kingdom of Saudi Arabia and other publications approved by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

The Financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) approved in the Kingdom of Saudi Arabia and other standards and publications issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA) (collectively referred to as the «International Financial Reporting Standards approved in the Kingdom of Saudi Arabia») and in accordance with the corporate regulation and the Company's bylaws in preparing the consolidated financial statements for the fiscal years ending on 31 December 2020G, 2021G, and 2022G, and in accordance with International Accounting Standard (34) «Initial Financial Reporting» approved in the Kingdom of Saudi Arabia in preparing the reviewed consolidated financial statements for the six-month periods ending on 30 June , 2022G. And 2023G.

Neither KPMG Professional Consulting nor any of its subsidiaries, employees, or any of their relatives owns any shares, stakes, or interest of any kind in the group that might affect its independence as of the date of issuance of the audited consolidated financial statements. As of the date of this Prospectus, KPMG Professional Consulting has provided its written consent to indicate in this Prospectus its role as an auditor for the group's accounts for the fiscal years ending on 31 December 2020G, 2021G, and 2022G, and for the six-month periods ending on 30 June 2022G and 2023G, and it has not withdrawn that approval as of the date of issuance of this Prospectus.

The above-mentioned financial statements also form an integral part of this Prospectus, and this section must be read in conjunction with those statements and the clarifications that supplement them. These financial statements have been included in Section No. (19) «The Financial Statements and Auditors Report» of this Prospectus.

All amounts in this section have been rounded to the nearest thousand Saudi riyals unless otherwise stated, and numbers and percentages have been rounded to the nearest decimal place. Therefore, the sum of these numbers may differ from what is shown in the tables. Accordingly, all ratios, indicators, annual expenditures and compound annual growth rates are based on rounded numbers.

The financial information for the fiscal year ending on 31 December 2020G was used from the comparative financial information presented in the audited consolidated financial statements for the fiscal year ending on 31 December 2021G, and the financial information was used for the fiscal years ending on 31 December 2021G and 2022G from the audited consolidated financial statements for the fiscal year ending on 31 December 2022G, and the financial information for the six-month period ending 30 June 2022G was used from the reviewed consolidated financial statements for the six-month period ending 30 June 2023G.

This section may include statements of a forward-looking nature relating to the future capabilities of the Company, based on management's plans and expectations regarding the Group's growth, results of operations and financial position as well as the risks and uncertainties associated therewith. The Company's actual results may differ materially from the expected results as a result of many factors, risks and future events, including those discussed in this section of the Prospectus or elsewhere, in particular Section No. (2) «Risk Factors» of this Prospectus.

6-1-1 Declarations of Board Members Regarding the Financial Statements

1. The members of the Board of Directors Declare that the financial information contained in this section is extracted without material modifications and is presented in accordance with the audited consolidated financial statements for the years ending on 31 December 2020G, 2021G, and 2022G and the audited consolidated financial statements for the six-month periods ending 30 June 2022G and 2023G. The previously mentioned statements were prepared by the Company and its subsidiaries in accordance with the International Financial Reporting Standards (IFRS) approved in the Kingdom of Saudi Arabia and other standards and publications approved by the Saudi Organization for Chartered and Professional Accountants(SOCPA), and reviewed by the Company's certified public accountant in the Kingdom of Saudi Arabia «**KPMG Professional Consulting Company**».
2. The members of the Board of Directors Declare that the issuer - individually or in partnership with its subsidiaries - has sufficient working capital for at least twelve (12) months immediately following the date of publication of the Prospectus.
3. The members of the Board of Directors Declare that there has been no material negative change in the financial and commercial position of the Company during the three (3) years immediately preceding the date of submitting the application for registration and offering the securities subject to this Prospectus, in addition to the end of the period covered in the auditor's report up to the date of issuance of this Prospectus.
4. The members of the Board of Directors Declare that all material facts relating to the Group and its financial performance have been disclosed in this Prospectus, and that there is no other information, documents or facts whose failure to include would render any statement misleading.
5. The Board of Directors Declare that the Company does not have any property, including contractual securities or other assets, the value of which is subject to fluctuations or whose value is difficult to ascertain, which would significantly affect the assessment of the financial position.
6. The members of the Board of Directors Declare that the Company or its subsidiaries have not granted any commissions, discounts, brokerage fees, or any non-monetary compensation during the three (3) years immediately preceding the date of submitting the application for registration and offering of securities subject to this Prospectus, in connection with the issuance or offering any securities to any of the members of the Board of Directors, senior executives, those presenting or offering securities, or experts who received any of these payments or benefits.
7. Other than what was stated in Section No. (6-2-2-3) «**Non-Current Liabilities,**» Section No. (6-2-2-4) «**Current Liabilities,**» Section No. (12-8) «**Loans and Facilities,**» and Section No. (2-1-9) «**Risks Related to Credit Facilities and Financing Agreements**» of this Prospectus, the members of the Board of Directors declare that the Company does not have any loans or other indebtedness, including overdrafts from bank accounts, obligations under acceptance, acceptance credit or lease purchase obligations, whether covered by a personal guarantee, not covered by a personal guarantee, secured by a mortgage, or not secured by a mortgage.
8. Other than what was stated in Section No. (6-2-2-3) «**Non-Current Liabilities,**» Section No. (6-2-2-4) «**Current Liabilities,**» and Section No. (12-8) «**Loans and Facilities**» of this Prospectus, the Board of Directors declare that the Company and its subsidiaries do not have any contingent liabilities or guarantees as of the date of this Prospectus.
9. The members of the Board of Directors Declare that the Company and its subsidiaries do not have any intention to make any fundamental change in its activity.
10. The members of the Board of Directors Declare that the operations of the Company and its subsidiaries have not ceased in a way that has significantly impacted or affected their financial position during the last (12) twelve months.
11. The members of the Board of Directors Declare that the share capital of the Company and its subsidiaries is not subject to any option right.
12. Other than what is stated in Section No. (6-2-2-4) «**Current Liabilities**» and Section No. (12-8) «**Loans and Facilities**» of this Prospectus, the members of the Board of Directors declare that the properties of the Company and its subsidiaries are not subject to any mortgages, rights or charges as of the date of this Prospectus.
13. The members of the Board of Directors Declare that the Company has provided comprehensive details in this section of all fixed assets and investments, including contractual securities and other assets whose value is volatile or difficult to estimate.
14. Other than what was stated in Section No. (6-2-2-3) «**Non-Current Liabilities,**» Section No. (6-2-2-4) «**Current Liabilities,**» and Section No. (12-8) «**Loans and Facilities**» of this Prospectus, the members of the Board of Directors declare that the Company and its subsidiaries have no issued or existing debt instruments, term loans or mortgages issued or approved but not issued, secured or unsecured by mortgage, or by personal guarantee.

15. Other than what is stated in Section No. (5-5) «**Board of Directors**» of this Prospectus, neither the members of the Board of Directors nor any of their relatives have any shares or interest of any kind in the issuer or any of its subsidiaries.
16. Other than what is stated in Section No. (2) «**Risk Factors**» of this Prospectus, the Company is not aware of any seasonal factors or economic cycles related to the activity that may have an impact on its business or financial condition.
17. Other than what is stated in Section No. (2-1-30) «**Risks related to the pricing policy of pharmaceutical products**» of this Prospectus, the Company does not have any information about any governmental, economic, financial, monetary, or political policies or any other factors that have influenced or may influence or could materially affect (directly or indirectly) operations.
18. The members of the Board of Directors Declare that there was no reservation in the certified public accountant's report on the issuer's financial statements for any of the three (3) fiscal years immediately preceding the date of submitting the application for registration and offering of securities subject to this Prospectus.
19. The members of the Board of Directors Declare that no material structural changes have been made in the issuer in the last fiscal year immediately preceding the date of submitting the application for registration and offering of securities subject to this Prospectus.
20. The members of the Board of Directors Declare that there has been no material change in the accounting policies of the issuer during the three (3) fiscal years immediately preceding the date of submitting the application for registration and offering of securities subject to this Prospectus in addition to the period covered in the auditor's report up to the date of issuance of this Prospectus.
21. The members of the Board of Directors Declare that there has been no material amendment to the audited consolidated financial statements announced for any of the three (3) fiscal years immediately preceding the date of submitting the application for registration and offering of securities subject to this Prospectus in addition to the period covered in the auditor's report up to the date of issuance of this Prospectus.

6-1-2 The Main Factors that Affect the Company's Operations

Below is a discussion of the most important factors that have affected, or are expected to affect, the Group's financial condition and results of operations. These factors are based on information currently available to management and may not represent all factors that could have an impact on the Company's business (see Section No. (2) «**Risk Factors**» of this Prospectus).

6-1-2-1 The Impact of Corona Pandemic (Covid-19) on Businesses

- The Corona pandemic has spread across different geographical regions globally, disrupting business and economic activities, and thus causing problems in the global economy. Financial and monetary authorities, both locally and internationally, have announced various support measures around the world to confront the negative effects of the Corona pandemic.
- After the outbreak of the Corona pandemic, governments in many countries implemented closures, travel restrictions, and/or mandatory quarantine measures on travelers and on residents within cities, regions, or provinces in many countries, including the Kingdom of Saudi Arabia and other countries that the Company operates and exports to.
- The Corona pandemic had a mixed impact on the Company's operations that began in 2020G, and this was mainly observed as follows:

Revenue by product

- Revenues from «**EZ Clean**» sanitizer products and direct purchases (face masks and sanitizer dispensers) increased from SAR 10.8 million in 2019G to SAR 97.4 million in 2020G, and then decreased to SAR 20.5 million in 2021G and to SAR 8.5 million in 2022G. The group considered that the budgeted sales for the years 2020G and 2021G amounted to SAR 8.0 million, and this amount is considered the normal level of sales of «**EZ Clean**» sterilizer products.
- There was a decrease in demand for many products during the Corona pandemic period as follows:
 1. The Respiratory Therapy category was affected in 2020G due to a decrease in respiratory cases due to social distancing, lockdowns, face masks, and other measures implemented to confront the Corona pandemic.

2. Antifungal products were also negatively affected due to disruption in travel (the main driver of sales for this category), among many other things.
- The majority of customers, especially pharmacies, purchased large quantities during the Corona pandemic, and this had the following effects:
 1. Demand from this type of customer decreased from SAR 16.0 million in the fiscal year 2020G to SAR 10.6 million in the fiscal year 2021G.
 2. Recording higher revenues from exceptional sales of «EZ Clean» sterilizer products in 2020G, which amounted to SAR 92.5 million, compared to only SAR 19.7 million in 2021G, as they were sold at low prices to clear inventory.

Other Effects

- In accordance with the support of the **government «SANID»** program, which is based on caring for the Saudi worker and his family during the period of his absence from work due to circumstances beyond his control, the government partially paid salaries and social insurance to Saudi citizens working for the Company during the period of the Corona pandemic, with a total amount of SAR 1.3 million in the fiscal year 2020G, which led to a decrease in general and administrative expenses by the same amount during the year 2020G.
- An increase in the cost of transportation/logistical services included in selling and distribution expenses due to supply chain challenges during the Corona pandemic period, reaching SAR 4.8 million in the fiscal year 2020G compared to SAR 3.6 million in the fiscal year 2021G.
- A decrease in expenses for promotional and marketing activities falling within sales and distribution expenses during the Corona pandemic period due to the mandatory closures and other restrictions imposed by the government, reaching SAR 15.6 million in the fiscal year 2020G, compared to SAR 17.5 million in the fiscal year 2021G.
- A decrease in travel expenses included in selling, distribution, general and administration expenses as a result of the decrease in employee travel activities due to the restrictions imposed by the government during the Corona pandemic period, reaching SAR 1.3 million in the fiscal year 2020G compared to SAR 2.0 million in the fiscal year 2021G.
- Increasing employee incentives included in the cost of revenues, selling and distribution expenses, and general and administration expenses in 2020G after achieving the targeted revenues through increasing revenues from sterilizer products, which amounted to SAR 12.2 million in the fiscal year 2020G compared to SAR 8.1 million in the fiscal year 2021G. and
- The time delay in implementing ongoing projects as a result of the temporary closure of sites during the Corona pandemic period, in addition to the delay in receiving the machines used in the expansion of the Avalon Factory (2).

6-1-2-2 Risks Related to the Impact of Increasing Costs and Operating Expenses for the Company's Business

The Company's operating expenses may increase as a result of a number of factors, especially as a result of the increase in the prices of raw materials and products purchased from suppliers, and employee costs. The cost of revenue includes all direct operating expenses for the Company's business, including labor expenses, raw materials, and other purchases related to manufacturing operations, and it constituted 41.5%, 39.2%, and 39.1% of the Company's total revenues during the years 2020G, 2021G, and 2022G, respectively, and 41.8% during the first half of 2023G.

Cost inflation for long periods may also have a negative impact on the Company's profit margins and revenues, and any future increase in inflation rates in the Kingdom and in the countries from which the Company imports will have a negative impact on the Company's profit margins and revenues, and it may not be able to compensate for the increase in operational costs by increasing the prices of its products all the time.

The Company also incurs general and administrative expenses during its operations, which mainly include the salaries of the Company's employees and executive management and expenses related to them, and other expenses, fees and bills such as electricity, communications, travel, etc. General and administrative expenses constituted 11.5%, 13.1% and 14.3% of the Company's total revenues. During the years 2020G, 2021G, and 2022G, respectively, and 15.4% during the first half of 2023G. Any increase in the Company's operating costs and expenses due to several factors, including, but not limited to, the increase in the prices of raw materials and imported products, manufacturing and labor costs, employee salaries and related expenses, and the prices of fuel, electricity, water, communications, shipping, etc., will have a negative and material impact on the Company's business. and the results of its operations, financial condition, and future expectations (see Section No. (2-1-24) «Risks Related to Reliance on Major Suppliers,» Section No. (2-1-20) «Risks of Rising Energy and Water Prices,» and Section No. (2-1-42) «Risks Related to Saudization Requirements» of this Prospectus).

6-1-2-3 Risks Related to Changing the Mechanism for Calculating Zakat and Income Tax

The Company is currently subject to zakat and value-added tax, in addition to withholding tax on some of the Company's transactions conducted with international parties. However, the government may impose other fees or additional taxes on companies in the future. If new taxes or fees are imposed on companies, this may negatively affect the Company's business, results of operations, financial condition, and future prospects.

The Company submits its zakat and tax returns to the Zakat, Tax and Customs Authority annually within the specified time and pays the amounts due on it annually. It is worth noting that the Company has submitted its zakat returns until 31 December 2022G, and the zakat has been settled according to the zakat returns, as it obtained a zakat certificate from the Zakat, Tax and Customs Authority, valid until 21/10/1445H (corresponding to 30/04/2024G).

- The Company received the zakat assessments from the Zakat, Tax and Customs Authority for the fiscal years from the founding of the Company until the end of 2022G.
- During the month of October 2023G, the Company received the zakat assessments from the Zakat, Tax and Customs Authority for the years from 2018G to 2022G with an additional obligation amounting to (SAR401,963) four hundred and one thousand nine hundred and sixty-three Saudi Riyals, and it will settle it in full immediately upon issuance of the related invoices by the Zakat, Tax and Customs Authority.
- There are currently no outstanding zakat claims, amounts or disputes with the Zakat, Tax and Customs Authority, and if there are any future claims for any of the previous fiscal years, the Company will bear them.

(See Section No. (12-11) «**Zakat and Tax Status**» of this Prospectus).

The Company made a provision for zakat amounting to SAR 5.2 million as of 31 December 2020G, SAR 4.8 million as of 31 December 2021G, SAR 5.6 million as of 31 December 2022G, and SAR 3.1 million as of 30 June 2023G.

Any potential future increase in VAT may reduce the level of demand for the Company's products or affect its profitability, which will have a material negative impact on the Company's business, results of operations, financial condition, and future prospects. In addition, any additional costs for taking the necessary steps to ensure compliance with any changes in the directives of the Department of Zakat, Taxes and Customs regarding the mechanisms and procedures for calculating zakat and income tax as well as any additional exposures following these changes could have a negative impact on the Company's business, results of operations and position, financial condition, and future prospects (see Section No. (2-2-10) «**Risks Related to Changing the Mechanism for Calculating Zakat and Income Tax**» of this Prospectus).

6-1-2-4 Liquidity Risks

Liquidity risk represents the Company's inability to meet its obligations related to financial liabilities as they fall due. The Company's financial liabilities consist of loans, payables, accrued expenses, and dues to related parties. Any emergency or sudden events may occur that require immediate liquidity or require the sale of financial assets quickly enough and at their fair value to cover the required liquidity needs.

The Company's net working capital (total current assets after deducting total current liabilities) amounted to SAR140.4 million as of 31 December 2020G, SAR 152.0 million as of 31 December 2021G, and SAR 160.1 million as of 31 December 2022G, and SAR 152.1 million as of 30 June 2023G. The Company's trading ratio (total current assets to total current liabilities) was about 2.66 times as of 31 December 2020G, 2.29 times as of 31 December 2021G, 2.21 times as of 31 December 2022G, and 2.26 times as of 30 June 2023G.

The Company is exposed to liquidity risks if it is unable to maintain a sufficient amount of cash and working capital to finance its operational operations, as it has cash available when collecting receivables from customers or through credit agreements with banks (see Section No. (2-1-9) «**Risks relating to credit facilities and financing agreements**» of this Prospectus).

The Company's sales to its customers in the government and private sectors are made on credit, which delays the process of collecting its receivables, as the net balance of receivables amounted to SAR 109.9 million as of 31 December 2020G, SAR 164.4 million as of 31 December 2021G, and SAR 152.4 million as of 31 December 2022G, and SAR 148.5 million as of 30 June 2023G (see Section No. (2-1-8) «**Credit-Related Risks**» of this Prospectus). In addition, the Company is committed to managing the inventory of raw materials and finished products to meet manufacturing needs for a period of no less than (6) months, in accordance with the requirements of the Saudi Food and Drug Authority. Despite the delay in collecting receivables and the commitment to purchase quantities of raw materials to maintain a sufficient level of inventory at all times, the Company pays the receivables of the suppliers it deals with on their due dates, which may expose it to the risk of not having sufficient liquidity at all times, and if this happens, it will have a negative and material impact on the Company's performance, operational operations, future plans and financial condition.

If the Company is not able to meet its current or future obligations on their due dates, especially short-term ones, it will be vulnerable to financial default, which will negatively affect the Company's business, financial performance and future expectations.

6-1-2-5 Credit-related risks

Credit risks arise when one party is unable to fulfill a certain financial obligation to the other party. The Company may face credit risks in several temporary or permanent situations, including, for example, the presence of unpaid customer debt balances, or the failure of other debtor parties to fulfill their obligations to the Company. Or other.

Avalon Pharma implements a policy approved by the executive management to limit its exposure to credit risks, whereby the performance of collections is constantly monitored, a maximum repayment period of six (6) months is set, and the necessary measures are taken if any of the customers do not comply with the repayment terms. The Company's exposure to credit risk is primarily influenced by the individual characteristics of each customer, but management also considers factors that may have an impact on the credit risk of its customer base, including default risks associated with the business sector in which customers operate.

Under a credit policy, each new customer is also analyzed individually to verify his credit capacity before offering the Company's standard payment terms and conditions to the customer. The management also ensures that sales to customers are within the credit limit of the customers concerned.

As for the Company's distributors outside the Kingdom of Saudi Arabia (export customers), they pay in advance and/or through guarantees through documentary credits before delivery.

(See Section No. (2-1-8) «Credit-Related Risks» of this Prospectus)

The following table shows the receivables during the years 2020G, 2021G, 2022G, and the first half of 2023G, according to the type of customers:

Table No. (114): Receivables according to type of customers

	As of December 31, 2020 (SAR)	As of December 31, 2021 (SAR)	As of December 31, 2022 (SAR)	As of June 30, 2023G (SAR)
Receivables from retail customers (private sector)	47,709,561	72,376,191	77,237,877	86,517,655
Receivables from government sector customers	64,285,992	91,914,982	77,106,427	64,424,719
Receivables from export customers	5,772,201	7,978,217	6,061,402	5,253,367
Total receivables	117,767,754	172,269,390	160,405,706	156,195,741
Deduct: Loss provision				
Loss provision from government sector clients	(277,784)	(417,588)	(1,820,046)	(1,335,381)
Loss provision from private sector clients	(7,625,592)	(7,485,788)	(6,213,330)	(6,369,389)
Total Loss provision	(7,903,376)	(7,903,376)	(8,033,376)	(7,704,770)
Net receivables	109,864,378	164,366,014	152,372,330	148,490,971
Percentage of total current assets	48.79%	61.02%	52.09%	54.47%
Percentage of total assets	29.64%	39.42%	34.38%	34.87%

Source: Avalon Pharma Company

- The total receivables from the Company's five largest debtors amounted to SAR 44.3 million as of 31 December 2020G, which is 40.3% of the total net receivables, and constituted 14.7% of the total revenues, and 12.0% of the total assets.
- The total receivables from the Company's five largest debtors amounted to SAR 86.3 million as of December 31, 2021G, which is 52.5% of the total net receivables, and constituted 30.0% of the total revenues, and 20.7% of the total assets.
- The total receivables from the Company's five largest debtors amounted to SAR 80.2 million as of December 31, 2022G, which is 52.6% of the total net receivables, and constituted 26.5% of the total revenues, and 18.1% of the total assets.

- The total receivables from the Company's five largest debtors amounted to 78.2 million Saudi riyals as of 30 June , 2023G, which is 52.7% of the total net receivables, and constituted 52.7% of the total revenues and 18.4% of the total assets.

The average repayment period ranges between 90 to 120 days for retail and export customers, and between 180 to 365 days for government sector customers. The Company sets provisions for doubtful debts as these debts age, as the total value of these provisions reached SAR 7.9 million as of 31 December 2020G, and SAR 7.9 million as of 31 December 2021G, and SAR 8.0 million as of 31 December 2022G, and SAR 7.7 million as of 30 June 2023G.

The following table shows the aging of receivables during the years 2020G, 2021G, 2022G, and the first half of 2023G:

Table No. (115): Aging of receivables

	As of December 31, 2020G	% of total	As of December 31, 2021G (Saudi riyals)	% of total	As of December 31, 2022G (Saudi riyals)	% of total	As of June 30, 2023G (Saudi riyals)	% of total
Current (not past due)	67,750,157	57.53%	101,440,153	58.88%	103,128,418	64.29%	104,785,084	67.09%
Past due from 1 to 30 days	6,688,876	5.68%	6,039,557	3.51%	4,029,105	2.51%	2,866,182	1.83%
Past due from 31 to 60 days	4,984,467	4.23%	2,988,870	1.73%	2,406,123	1.50%	1,202,683	0.77%
Past due from 61 to 90 days	3,731,415	3.17%	2,144,604	1.25%	1,402,258	0.87%	1,002,238	0.64%
Past due from 91 to 180 days	7,065,159	6.00%	14,202,749	8.24%	3,482,332	2.17%	2,376,619	1.52%
Past due from 181 to 365 days	9,855,324	8.37%	11,283,981	6.55%	9,497,396	5.92%	4,420,240	2.83%
Past due from 366 to 720 days	11,456,417	9.73%	23,166,721	13.45%	14,539,022	9.07%	12,505,775	8.01%
Past due for more than 720 days	6,235,939	5.29%	11,002,755	6.39%	21,921,052	13.67%	27,036,920	17.31%
Total	117,767,754	100.00%	172,269,390	100.00%	160,405,706	100.00%	156,195,741	100.00%

Source: Avalon Pharma Company

* The numbers have been restated as of 31 December 2020G according to the classification in the audited consolidated financial statements ending on 31 December 2022G.

Debtor balances overdue for more than 365 days represent receivables from government tender sales and receivables from direct sales to private sector clients, which were made within the framework of the Company's collection policy, and are reversed as they age within the allowance for doubtful debts.

The following table shows details of debit balances overdue for more than 365 days during the years 2020G, 2021G, 2022G, and the first half of 2023G:

Table No. (116): Age of receivables overdue for more than 365 days

	As of December 31, 2020G (Saudi riyals)	% of total	As of December 31, 2021G (Saudi riyals)	% of total	As of December 31, 2022G (Saudi riyals)	% of total	As of June 30, 2023G (Saudi riyals)	% of total
Total debit balances overdue from 366 days to 720 days								
Of government sector clients	7,166,213	62.55%	22,279,407	96.17%	13,592,317	93.49%	11,236,633	89.85%
Of private sector clients	4,290,204	37.45%	887,314	3.83%	946,705	6.51%	1,269,142	10.15%
Debit balances overdue from 366 to 720 days	11,456,417	100.00%	23,166,721	100.00%	14,539,022	100.00%	12,505,775	100.00%
Debit balances overdue for more than 720 days								
Of government sector clients	3,118,069	50.00%	6,641,262	60.36%	17,773,141	81.08%	23,011,977	85.11%
Of private sector clients	3,117,870	50.00%	4,361,493	39.64%	4,147,911	18.92%	4,024,943	14.89%
Total debit balances overdue for more than 720 days	6,235,939	100.00%	11,002,755	100.00%	21,921,052	100.00%	27,036,920	100.00%

Source: Avalon Pharma Company

* The figures have been restated as of 31 December 2020G, according to the classification in the audited consolidated financial statements ending on 31 December 2022G.

It is worth noting that the bad debts that were written off during the year 2020G amounted to SAR 82.0 thousand, or 0.07% of the total balance of receivables, and there were no bad debts that were written off during the year 2021G, during the year 2022G, and during the first half of the year 2023G (see Section No. (6-2-2-2) «**Current Assets**» of this Prospectus).

If the debtors do not commit to paying the Company's dues on time, or do not commit at all to pay partially or completely, this will have a negative and material impact on the results of the Company's operations, financial condition and cash flows.

6-1-2-6 Risks related to the Company's payables

The Company's credit balances represent receivables to suppliers with whom the Company deals (see Section No. (4-20) «**Main Suppliers**» and Section No. (6-2-2-4) «**Current Liabilities**» of this Prospectus). The Company's total balance of trade payables is as follows:

- SAR 26.2 million as of 31 December 2020G, which constituted 30.9% of the total current liabilities.
- SAR 32.7 million as of 31 December 2021G, which constituted 27.9% of the total current liabilities.
- SAR 38.0 million as of 31 December 2022G, which constituted 28.7% of the total current liabilities.
- SAR 35.8 million as of 30 June 2023G, which constituted 29.7% of the total current liabilities.

If the Company is unable to pay the full value of trade payables within the specified period of time, it will be difficult for it to continue obtaining debt purchase agreements on appropriate terms in the future. This will also negatively affect its reputation and the desire of the creditor parties to continue dealing with the Company, which will have a significant negative impact on its operational operations and financial performance (see Section No. (6-2-2-4) «**Current Liabilities**» of this Prospectus).

6-1-2-7 Risks Related to Inventory

The Company's inventory includes mostly the value of raw materials and finished products that the Company supplies to meet the needs of factories and customer requests including pharmaceutical chemicals, essential active ingredients, packaging materials, boxes and packaging. The Company's inventory includes some slow-moving goods, as the Company creates a provision for the value of those goods as they age and approach the end of their expiration (see Section No. (6-2-2-2) «**Current Assets**» of this Prospectus).

The Company manages the stock of raw materials and finished products to meet manufacturing needs for a period of at least six months, and in accordance with the requirements of the Food and Drug Authority. The size of the stock is estimated according to the production plans set by the Operations Department and in parallel with the sales plans set by the Sales Department.

The following table shows the Company's inventory as of 31 December 2020G, 2021G, and 2022G, and as of 30 June 2023G:

Table No. (117): Company Inventory

(SAR)	As of December 31, 2020G (Audited)	As of December 31, 2021G (Audited)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Raw materials	25,925,132	20,621,079	26,538,038	26,658,410
Packaging Materials	25,423,602	20,990,868	30,215,927	34,108,684
Finished products	24,071,800	24,110,731	36,883,268	33,619,534
Consumables	6,097,074	6,337,115	7,014,263	7,165,254
Spare parts inventory	1,424,984	2,760,314	1,507,428	1,619,090
Goods under manufacturing	322,693	257,191	295,472	392,562
Total inventory before deducting provision	83,265,285	75,077,298	102,454,396	103,563,534
Inventory provision				
Opening Balance	322,848	753,556	626,023	2,239,844
Add: provision for expiring and obsolete inventory*	4,531,586	4,725,805	9,520,608	5,361,739
Deduct: Write-offs and expenses during the year/period**	(4,100,878)	(4,853,338)	(7,906,787)	(4,732,610)
Balance of the provision at the end of the year/period	753,556	626,023	2,239,844	2,868,973
Net Inventory (after deducting provision)	82,511,729	74,451,275	100,214,552	100,694,561

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022G and consolidated reviewed financial statements for the six-month period ending on June 30, 2023

* The amounts added to the inventory provision include the value of inventory that is about to expire and obsolete based on the operational life of each product, and are not deducted from the provision until after the expiration of that inventory. When these amounts are added to the inventory provision, they are recognized as an expense within the cost of revenues (deducted from the closing inventory of finished goods within the cost of revenues).

** The amounts that are deducted from the inventory provision include the value of the inventory that was written off due to its expiration and the value of the damaged/returned materials. The value of that expired inventory and the damaged/returned materials are also deducted from the total inventory balance.

The following table shows the aging of the Company's inventory as of December 31, 2020, 2021, and 2022, and as of June 30, 2023:

Table No. (118): Obsolescence of the Company's inventory

(SAR)	As of December 31, 2020G (Audited)	As of December 31, 2021G (Audited)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
From 0 to 120 days	16,542,580	18,917,722	28,914,008	30,431,387
From 121 to 180 days	11,214,753	8,280,013	13,802,913	10,351,399
From 181 to 240 days	21,313,489	4,918,458	8,217,444	6,394,580
From 241 to 360 days	13,532,847	6,998,796	12,025,865	14,449,388
More than 360 days	20,661,616	35,962,309	39,494,166	41,936,780
Total inventory before provision	83,265,285	75,077,298	102,454,396	103,563,534
Deduct: Inventory provision	(753,556)	(626,023)	(2,239,844)	(2,868,973)
Net inventory	82,511,729	74,451,275	100,214,552	100,694,561

Source: Avalon Pharma Company

The inventory mainly includes pharmaceutical chemicals, essential active ingredients used in making medicines and preparations, packaging materials, boxes and containers. Due to the different operating lives of the inventory contents, as it includes products with a long shelf life, in addition to the fact that most packaging materials, boxes and packages do not have a specific expiration date, the value of inventory obsolete for more than 360 days is considered high compared to the rest of the inventory and compared to the provision for inventory that is about to expire and is obsolete.

The value of obsolete inventory for more than 360 days amounted to 41.9 million Saudi riyals as of June 30, 2023, and is represented as follows:

- Pharmaceutical chemicals and basic active ingredients worth 19.9 million Saudi riyals, or 47.5% of the total value of inventory obsolete for more than 360 days.
- Packaging materials, boxes and containers do not have a specific expiration date, with a value of 21.4 million Saudi riyals, or 51.0% of the total value of inventory obsolete for more than 360 days.
- Expired goods worth 0.6 million Saudi riyals, i.e. 1.4% of the total value of inventory obsolete for more than 360 days, and the value of these goods is included in the inventory allowance.

The balance of obsolete inventory has increased continuously for more than 360 days since 2020, as shown in the table above, due to the following:

1. The Company maintains a high stock of some imported chemicals and active ingredients that have a long shelf life of up to 60 months, and ordering and importing them takes a long time ranging from 6 to 8 months, and the Company obtains them at preferential prices when purchasing large quantities of them. In order to avoid a long import period and the possibility of running out of stock, as well as to benefit from preferential prices when purchasing large quantities, the Company orders large quantities of these materials, which have a shelf life of up to 1,800 days. It is normal for there to be a high stock balance of these materials for more than 360 days. It is worth noting that the Company sets aside a provision for these materials when they become obsolete and their expiration date approaches.
2. The Company purchases most of the packaging materials, boxes and containers that do not have a specific expiration date in large quantities, as it obtains them at preferential prices. Accordingly, it is normal for there to be a high stock balance of these materials for more than 360 days. It is worth noting that the Company does not set aside a provision for these materials as they do not have a specific expiration date.

The net inventory value of the Company was as follows:

- As of 31 December 2020G, the net value of the Company's inventory amounted to SAR 82.5 million, and the value of the allowance for slow-moving goods amounted to SAR 753.6 thousand, or 0.9% of the total value of inventory before deducting the allowance. The inventory turnover rate (cost of revenue to net inventory value) was 1.52 times, with the average number of inventory days during the year reaching 240 days.
- As of 31 December 2021G, the net value of the Company's inventory amounted to SAR 74.5 million, and the value of the allowance for slow-moving goods amounted to SAR 626.0 thousand, or 0.8% of the total value of inventory before deducting the allowance. The inventory turnover ratio (cost of revenue to net inventory value) was 1.51 times, with the average number of inventory days during the year reaching 241 days.
- As of 31 December 2022G, the net value of the Company's inventory amounted to SAR 100.2 million, and the value of the allowance for slow-moving goods amounted to SAR 2.2 million, or 2.2% of the total value of inventory before deducting the allowance. The inventory turnover rate (cost of revenue to net inventory value) was 1.18 times, with the average number of inventory days during the year reaching 309 days.
- As of 30 June 2023G, the net value of the Company's inventory amounted to SAR 100.7 million, and the value of the allowance for slow-moving goods amounted to SAR 2.9 million, or 2.8% of the total value of inventory before deducting the allowance. The inventory turnover rate - calculated on a semi-annual basis (cost of revenues to net inventory value) was 1.09 times, while the average number of inventory days - calculated on a semi-annual basis was 334 days.

It is worth mentioning that the value of the goods written off due to their advanced age amounted to SAR 4.1 million during the year 2020G, SAR 4.9 million during the year 2021G, SAR 7.9 million during the year 2022G, and SAR 4.7 million during the first half of the year 2023G. , i.e. 5.0%, 6.5%, 7.9% and 4.7% of the total inventory value, respectively.

If the Company is unable to manage its inventory in an appropriate and accurate manner, or if fundamental and unexpected changes occur in the demand for its products, this will lead to an accumulation of inventory or a shortage, as the case may be, and thus this will negatively affect the Company's ability to implement established sales plans, or launch new products in the market, changing pricing strategies, or the expiration of products in the event of inventory accumulation, and this will reflect negatively on the Company's business, results of operations, financial condition, and future expectations. If the Company is unable to sell all slow-moving goods, this will negatively affect the Company's results, financial performance and profitability.

6-1-3 Company Overview

Middle East Pharmaceutical Industries Company («the Company») is a closed Saudi joint stock company under Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G).

The Company was transformed into a closed joint stock company pursuant to Ministry of Commerce Resolution No. (962) dated 13/09/1443H (corresponding to 14/04/2022G) and pursuant to Commercial Registry No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07 /1998G). The Company's current capital is (SAR 200,000,000) two hundred million, divided into (20,000,000) twenty million fully paid ordinary shares, with a nominal value of (SAR 10) per share, all of which are ordinary shares of one class. The Company's main headquarters is located in the city of Riyadh.

The Company manufactures, markets and distributes a wide range of medicines and health products in the Kingdom of Saudi Arabia and abroad. The Middle East Pharmaceutical Industries Company has a subsidiary in the United Kingdom (which in turn owns (3) companies), and (14) fourteen branches, in addition to investments in international companies.

The principal activities of the Company and its subsidiaries mentioned below (together referred to as the «Group») are the manufacturing of medicines, medicinal and non-medicinal creams and ointments.

The following subsidiaries are included in the audited consolidated financial statements for the fiscal years ending 31 December 2020G, 2021G, and 2022G, and the audited consolidated financial statements for the six-month period ending 30 June 2023G:

Table No. (119): Subsidiaries

Subsidiaries	Registered office	Investment cost (in GBP*)	Number of Shares	Ownership percentage	
				Direct	indirect
Avalon Pharma UK Holdings Limited	UK	1	1	100%	-
Avalon Cosmetics Limited	UK	1	1	-	100%
Avalon Pharma Limited	UK	1	1	-	100%
Avalon Nutrition Limited	UK	1	1	-	100%

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022G.

* Pound sterling - British Pound

6-1-4 The basis for preparing the financial statements and a summary of significant accounting policies

6-1-4-1 Accounting Basis

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards approved in the Kingdom of Saudi Arabia and other standards and issuances issued by SOCPA (hereinafter referred to as «International Financial Reporting Standards approved in the Kingdom of Saudi Arabia»).

Fundamentals of Measurement

The consolidated financial statements are prepared on a historical cost and ongoing principle, except for defined benefit obligations to employees, which are measured using the projected unit credit method, and equity investments at fair value through other comprehensive income, which are measured at fair value.

Presentation and activity currency

The consolidated financial statements are presented in Saudi Riyals, which is the Company's operating currency. All amounts are rounded to the nearest Saudi Riyal.

Basis of Consolidation

A - Subsidiary companies

The Group reassesses whether or not it exercises control over an investee when facts and circumstances indicate that there is a change in the elements of control. Consolidation of a subsidiary begins when the Group gains control over the subsidiary and ceases when the Group loses control over the subsidiary. The assets, liabilities, revenues and expenses related to the subsidiary that were acquired or sold during the year are included in the consolidated financial statements from the date the group obtains control until the date the group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income relates to the Company's shareholders and non-controlling interests, even if this results in a deficit balance in the non-controlling interests. When necessary, settlements are made to the financial statements of subsidiaries to align them with the Group's accounting policies. All intercompany assets and liabilities, equity, revenues, expenses and cash flows relating to transactions between group members are eliminated in their entirety upon consolidation.

B - Change in ownership interest

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- It ceases to recognize the assets (including goodwill) and liabilities of the subsidiary.
- It ceases to recognize the carrying value of any non-controlling interests.
- It ceases to recognize the cumulative translation differences recorded in equity. The fair value of the purchase consideration received is established.
- It establishes the fair value of the purchase consideration received.
- It recognizes any surplus or deficit in the consolidated statement of profit or loss.
- Reclassifies shareholders' shares in items previously recognized in other comprehensive income to consolidated statement of profit or loss or retained earnings, when appropriate, and when necessary if the Group directly sells the related assets or liabilities.

When the Group ceases to consolidate or account for an investment in a subsidiary due to loss of control, any retained interest in the entity is remeasured at fair value, and the change in carrying amount is recognized in the consolidated statement of profit or loss. This fair value becomes the initial carrying value for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to the consolidated statement of profit or loss.

Use Judgments and Estimates

In preparing the consolidated financial statements, estimates and judgments are used that affect the reported amounts. Actual results may differ from estimates. Estimates and judgments are based on historical experience and other factors that the Company's management considers reasonable, including expectations of future events. Information about estimate uncertainty that has a significant risk of causing a material adjustment is included in the following notes:

- Impairment testing - trade receivables, property, plant and equipment, and intangible assets.
- The estimated useful lives and residual values of property, machinery, equipment and intangible assets.
- Measuring employee benefit obligations: key actuarial assumptions.
- Expected credit losses. This requires significant judgment about how changes in economic factors will affect expected credit losses.

Zakat

When calculating the zakat expense each year, the group adjusts its profit and applies some deductions to its zakat base used in calculating zakat. Since the Zakat, Tax and Customs Authority's assessments differ from the amounts that have been recognized, these adjustments reflect changes in the estimated amounts that will be paid to (recovered from) the Authority. Such changes in profit or loss are recognized as a change in estimate unless there is an indication that the revision is the result of an error.

6-1-4-2 Basis for measuring the reviewed consolidated financial statements for the six-month period ending on 30 June 2023G

Important Accounting Policies

The accounting policies applied when preparing these interim condensed consolidated financial statements are consistent with those followed when preparing the group's latest annual financial statements for the year ending 31 December 2022G.

Standards issued but not yet effective

Below are a number of new standards that are effective for annual periods beginning after 01 January 2023G, with early adoption permitted. However, the Group did not early adopt the new or amended standards when preparing these interim condensed consolidated financial statements.

New requirements currently in effect

01 January 2023G	IFRS 17 «Insurance Contracts», including amendments to the initial application of IFRS 17 and IFRS 9 - Comparative Information
01 January 2023G	Disclosure Initiative: Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
01 January 2023G	Definition of Accounting Estimates - Amendments to International Accounting Standard 8
01 January 2023G	Deferred tax related to assets and liabilities resulting from a single transaction - Amendments to IAS 12

Expected requirements

01 January 2024G	Classification of liabilities as current and non-current - Amendments to IAS 1 and non-current liabilities with commitments - Amendments to IAS 1
01 January 2024G	Lease obligations in sale and leaseback transactions - Amendments to IFRS 16
To be determined later	Sale or contribution of assets between an investor and its associate or joint venture - Amendments to IFRS 10 and IAS 28

These new or amended standards mentioned above are not expected to have an impact on the Group's interim condensed consolidated financial statements.

6-1-5 Summary of Significant Accounting Policies

The following are the significant accounting policies applied by the Group in preparing the consolidated financial statements:

Classification of assets and liabilities into current and non-current

The Group presents assets and liabilities in the statement of financial position based on their classification into current/non-current items. Assets are current when:

- It is expected to be realized or there is an intention to sell or consume it in the normal operating cycle
- It is held primarily for the purpose of trading
- It is expected to be achieved within (12) twelve months after the reporting period
- It is in the form of cash and cash equivalents unless it is restricted from being exchanged or used to settle a liability for a period of at least twelve (12) months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be paid in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due for payment within (12) twelve months after the reporting period
- There shall be no unconditional right to postpone settlement of the obligation for a period of at least twelve (12) months after the reporting period.

The Group classifies all other liabilities as non-current.

Fair Value Measurement

The Group measures its financial instruments at fair value at each reporting date. Fair value is the amount 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. Fair value is measured based on the assumption 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 most advantageous market for the asset or liability.

All assets and liabilities whose fair value is measured or disclosed in the financial statements are classified within the fair value hierarchy, set out as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

Foreign Currency

Transactions and Balances

Transactions in foreign currencies are translated into Saudi Riyals based on the exchange rates prevailing on the dates of those transactions. As for monetary assets and liabilities denominated in foreign currencies, they are translated into Saudi riyals at the exchange rates prevailing on the date of the consolidated statement of financial position. Gains and losses arising from the settlement and translation of transactions in foreign currencies are included in the consolidated statement of profit or loss and other comprehensive income, respectively.

Revenue Recognition

The group earns revenue from selling goods to customers in exchange for orders received. Most of the contracts entered into by the Company relate to sales orders containing a single performance obligation to deliver pharmaceutical and healthcare products to the consumer. The average duration of a sell order is less than twelve (12) months.

Revenue is recognized when control of the goods is transferred to the customer. The transfer of control is determined by each client's arrangements, but generally occurs upon handover to the client. Product revenue represents the net invoice value including fixed and variable consideration. Variable consideration arises from the sale of goods as a result of discounts and allowances made and accruals of estimated future revenue and rebates. Revenue is not fully recognized until it is highly probable that a significant reversal in the amount of accumulated revenue will not occur. The methodology and assumptions used to estimate rebates and returns are regularly monitored and adjusted in light of contractual and regulatory obligations, historical trends, experience and anticipated market conditions. When the uncertainty associated with returns and rebates is resolved, revenue is adjusted accordingly.

Contract liabilities are recognized for expected returns, rebates and volume discounts that relate to sales made up to the end of the reporting period.

VAT and other sales taxes are excluded from revenue.

The Group has applied IFRS 15. Below is a summary of information about the Group's accounting policies relating to contracts with customers.

The Group recognizes revenue from contracts with customers based on a five-step model as defined in IFRS 15 as shown below.

Step 1 - Define the contract(s) with the customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and specifies the standards that must be met for each contract;

Step 2 - Identify Performance Obligations in the Contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer;

Step 3 - Determine the transaction price: The transaction price is the amount of consideration that the Company expects to receive in exchange for transferring the goods or services promised to the customer, excluding amounts collected on behalf of third parties;

Step 4: Allocate the transaction price to the performance obligations in the contract: For a contract that contains more than one performance obligation, the Group distributes the transaction price to each performance obligation in an amount that determines the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5 - Revenue is recognized when (or whenever) the entity satisfies a performance obligation.

The Group satisfies a performance obligation and recognizes revenue over a period of time, if one of the following criteria is met:

- The Group's performance does not create any asset that has an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date;
- The Group's performance creates or improves the asset that the customer controls when the asset is constructed or improved;
- The customer receives the benefits provided by the group's performance and simultaneously consumes them once the group has performed.

For performance obligations, if any of the above conditions are not met, revenue is recognized at the point in time when the performance obligation is satisfied.

Revenue from sales is recognized when products are delivered or shipped to customers and is recorded net of returns, trade discounts and quantity discounts. Other income is recognized when earned.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditures directly attributable to the acquisition of assets.

When significant parts of an item of property, plant and equipment have different useful lives, they are treated as separate items (significant components) of property, plant and equipment.

Subsequent expenditure incurred is capitalized only if it is probable that future economic benefits associated with the expenditure will flow to the Company. Daily servicing costs for property, plant and equipment are recognized in profit or loss as incurred.

Depreciation is calculated from the date on which items of property and equipment are available for their intended purpose. Depreciation is calculated on a straight-line basis over the useful lives of the assets as follows:

Asset category	Estimated Useful Lives
Buildings and improvements to leasehold properties	20
Machines	8
Furniture and office equipment	4
Cars	4
Computers	4
Tools	8

The remaining values of assets, their useful lives and depreciation methods are reviewed annually and subsequently adjusted when appropriate at each statement of financial position date.

Buildings and assets under construction that are not ready for their intended purpose are not depreciated.

An item of property, plant and equipment is derecognized when it is disposed of or when no economic benefits are expected from its use. Any gains or losses resulting from derecognition of assets (calculated as the difference between the net disposal proceeds and the carrying amount of the assets) are included in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognized.

The carrying amount of an asset is reduced immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

Intangible Assets

Intangible assets represent the cost of implementing programs, formula and product development costs and other deferred expenses. Subsequent expenditure is capitalized only when it increases the economic benefits inherent in the specific asset to which it relates. Costs that are directly related to identifiable software products and have potential economic benefits exceeding one year are recorded as intangible assets.

Costs that are associated with maintaining computer software are recorded as expenses when incurred. Intangible assets acquired by the Group that have finite lives are measured at cost less accumulated amortization and any accumulated impairment losses, if any.

Intangible assets are amortized using the straight-line method over the estimated years of benefit. The estimated years to amortize the major categories of intangible assets are as follows:

Asset Category	Estimated Useful Lives
Software and licenses	4 - 10 years
Developed products that have been registered	5 years

The useful lives of intangible assets are estimated as having «definite» or «indefinite» duration. Intangible assets with a finite life are amortized over their estimated useful lives, and are reviewed for impairment when there is evidence that their value may be impaired. The years and amortization method for intangible assets with a finite life are reviewed on an annual basis. Changes in the expected useful life or the method of exhaustion of future economic benefits embodied in the asset are treated in accounting by changing the year or amortization method, as appropriate, and are treated as changes in accounting estimates.

Amortization expense for intangible assets with finite lives is recognized in the consolidated statement of profit or loss and other comprehensive income in the expense category that is consistent with the function of the intangible asset. Intangible assets with finite useful lives are not amortized but are tested for impairment annually either on an individual basis or at the cash generating unit level.

Gains or losses resulting from derecognition of an intangible asset are measured by the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognized.

Impairment of Non-Financial Assets

Intangible assets with indefinite useful lives are not subject to amortization but are tested annually or more frequently for impairment if events or changes in circumstances indicate that the intangible asset may be impaired. Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized by the amount in excess of the asset's carrying amount over its recoverable amount. Recoverable amount is the higher of an asset's fair value less disposal costs and value in use. For the purposes of assessing impairment, assets are aggregated to the lowest level for which there are identifiable, independent cash inflows that are largely independent of the cash inflows of other assets or group of assets (cash-generating units). Impaired non-financial assets are reviewed for possible reversal of the impairment at the end of each report.

Inventory

Inventory which includes goods available for sale and goods in transit, is stated at cost and net realizable value, whichever is lower.

Cost is allocated to individual items of inventory on a weighted average cost basis. Purchased inventory costs are determined after deducting returns and rebates. In the case of finished goods inventory, the cost includes an appropriate share of production overheads according to normal operating capacity.

Net realizable value consists of the estimated selling price in the ordinary course of business less costs necessary to complete and the estimated costs necessary to complete the sale.

Cash and Cash Equivalent

Cash and cash equivalents consist of cash on hand and bank balances with original maturities of three (3) months or less that are readily convertible into known amounts of cash that are subject to an insignificant risk of changes in value.

Financial Instruments

1. Recognition and Initial Measurement

Trade receivables are initially recognized as they arise. Initial recognition of all other financial assets and financial liabilities occurs when the Group becomes a party to the contractual provisions of the instrument.

The initial measurement of a financial asset (unless it is a trade receivable without a significant financing component) or a financial liability is measured at fair value plus transaction costs directly attributable to its acquisition or issue, for an item not classified as Fair Value Through Profit or Loss (FVTPL). Trade receivables without a significant financing component are initially measured at the transaction price.

2. Classification and Measurement of Financial Assets and Financial Liabilities

On initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income – investments in debt securities; or fair value through other comprehensive income – equity investments; Or fair value through profit or loss. The classification of financial assets in accordance with IFRS 9 generally depends on the business model through which the financial asset is managed and the characteristics of its contractual cash flows.

Financial assets carried at amortized cost are measured if they meet both conditions below and are not classified as FVTPL:

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

An investment in debt instruments is measured at fair value through other comprehensive income if it meets both conditions below and is not classified as fair value through profit or loss:

- Assets are held within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets.
- Their contractual terms on specified dates originate cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of equity investments that are not held for trading, the Group has the right to definitively elect to present subsequent changes in the fair value of the investment in other comprehensive income. This option is made on an investment-by-investment basis.

All financial assets that are not classified as measured at amortized cost or at fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes all derivative financial assets. Upon initial recognition, the Group has the right to definitively designate financial assets that otherwise meet the requirements for measurement at amortized cost or at FVTOCI, as financial assets at FVTPL and, if it does so, eliminate the accounting mismatch that may have occurred. arises in another way or is significantly reduced.

The following accounting policies apply to the subsequent measurement of financial assets:

Financial assets carried at fair value through profit or loss	These assets are subsequently measured at fair value. Net gains and losses, including any interest income or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. Amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss upon derecognition is recognized in profit or loss.
Investments in debt securities at fair value through other comprehensive income	These assets are subsequently measured at fair value. Interest income is calculated using the effective interest rate method. Foreign exchange gains and losses and impairment are recognized in profit or loss. Net other gains and losses are recognized in other comprehensive income. When recognition is discontinued, the accumulated gains and losses are reclassified to other comprehensive income to profit or loss.
Equity investments at fair value through other comprehensive income	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Net other gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Financial assets carried at amortized cost consist of trade receivables and cash and cash equivalents.

Financial liabilities - classification, subsequent measurement and profits and losses

Financial liabilities are classified as measured at amortized cost or at fair value through profit or loss. Financial liabilities are classified as measured at fair value through profit or loss if they are classified as held for trading, or are considered as a derivative and are classified as such on initial recognition. Financial liabilities at fair value through profit or loss are measured at fair value, and net gains or losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss upon derecognition is also recognized in profit or loss.

Derecognition

Financial Assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the contractual rights to receive the cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and benefits of ownership and does not retain control over the financial asset.

The Group enters into transactions in which it transfers assets recognized in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are discontinued.

Financial Liabilities

The Group ceases to recognize financial liabilities when the contractual liabilities are settled, canceled or expire. The Group also ceases to recognize financial liabilities when its terms are modified and when the cash flows of the modified liabilities are significantly different, in which case new financial liabilities are recognized at fair value based on the modified terms.

Clearing

An offset is made between the amounts of financial assets and liabilities, and the net amount is included in the statement of financial position only when there is a current legal right binding the group to set off those amounts and when the group intends to settle them on a net basis or realize the asset and settle the liability simultaneously.

When financial liabilities are derecognized, the difference between the carrying amount depleted and the amount paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

Impairment of Non-Derivative Financial Assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost and contract assets. The Group measures loss allowances at an amount equal to lifetime expected credit losses. The allowance for expected credit losses on trade receivables is estimated using a provision matrix by referring to the debtor's past experience of default and an analysis of its current financial position, adjusted for factors specific to the debtors, the general economic conditions of the sector in which the debtors operate, and an assessment of both the current trend and the expected trend of conditions at the date of the report. Trade receivables are normally valued collectively, unless a specific receivable needs to be valued on an individual basis.

In accordance with IFRS 9, loss allowances are measured on one of the following bases:

- Expected credit losses over a period of (12) twelve months: They result from potential default events during a period of (12) twelve months from the date of the financial statements. And,
- Lifetime ECL: These are the credit losses that result from all potential default events over the expected life of the financial instrument.

In determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes qualitative and quantitative analysis and information based on the Company's historical experience and credit evaluation, and also includes information that is forward-looking to the future.

The Group assumes that the credit risk of a financial asset has increased significantly if it is more than 365 days past due from the government sector and more than 180 days past due from commercial sector sales.

The Group considers a financial asset to be in default when:

- There is a possibility that the debtor will not repay its credit obligations to the Group in full without the Group resorting to actions such as collecting collateral (if the Group holds it); or
- Financial assets are overdue according to the terms of the agreement with customers.

Measuring Expected Credit

ECL is a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the financial asset's effective interest rate.

Low Credit Value Financial Assets

The Group assesses at each reporting date whether financial assets carried at amortized cost and debt instruments carried at fair value through other comprehensive income are credit-impaired. Financial assets are considered **«credit-impaired»** when one or more events occur that have a negative impact on the estimated future cash flows of the financial assets.

Evidence that a financial asset is credit-impaired includes the following observable information:

- Significant financial difficulties facing the debtor;
- Breach of contract such as default or late payment for a period exceeding 180 days;
- Restructuring a loan or advance by the Group on terms that the Group may not have taken into account;
- It is likely that the debtor will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for securities due to financial difficulties.

Presentation of Impairment

Provisions for financial assets measured at amortized cost are deducted from the total carrying amount of the assets. Impairment losses relating to trade and other receivables, including contract assets and finance lease receivables, are presented separately in the statement of profit or loss. For debt securities at fair value through other comprehensive income, the loss allowance is charged to profit or loss and recorded in other comprehensive income.

Employee Benefits

1. Short-Term Liabilities

Liabilities related to wages and salaries, which include non-cash benefits, accrued leave and travel tickets, that are expected to be settled in full within (12) twelve months after the end of the year in which the related service is provided by the employee, are recognized in relation to employee services until the end of the reporting year and are measured at the amounts expected to be paid when settling obligations. The obligations are presented as current employee benefit obligations in the statement of financial position.

2. Post-Employment Obligations

The Company applies one program related to defined benefit plans for post-employment benefits in accordance with the Labor Law of the Kingdom of Saudi Arabia.

Post-employment benefit plans are not funded. A valuation of the liabilities under these plans is made by an independent actuary based on the projected unit credit method. Costs related to these plans consist primarily of the present value of benefits attributable on an equal basis to each year of service and interest on this liability related to employee service in prior years.

Current and past service costs related to post-employment benefits are recognized directly in the consolidated statement of profit or loss and other comprehensive income, while the cancellation of a commitment at the discount rates used is recorded as finance costs. Any changes in the net liability due to actuarial valuations and changes in assumptions are remeasured in other comprehensive income.

Remeasurement gains or losses arising from prior adjustments and changes in actuarial assumptions in the year in which they occur are recognized directly in other comprehensive income.

Zakat

The Zakat provision is calculated in accordance with the regulations of the Zakat, Tax and Customs Authority in the Kingdom of Saudi Arabia on an accrual basis. Zakat expense is charged to the consolidated statement of profit or loss and other comprehensive income. Differences, if any, resulting from the final assessments are settled in the year in which the assessment is completed.

Dividends

A provision is made for the amounts of any declared dividends that are appropriately authorized and not returned at the Company's discretion, at or before the end of the reporting period, but are distributed at the end of the reporting period.

Statutory reserves

According to the Companies Law in the Kingdom of Saudi Arabia, the Company must recognize a reserve consisting of 10% of the net profit for the year. The Company will stop contributing when the reserve reaches 30% of the capital. This reserve is not available for distribution.

Cost of Revenue

Cost of revenue includes direct costs of sales including material costs and indirect expenses directly attributable to revenue.

Sale and Distribution Expenses

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

General and administrative expenses

These expenses are operating expenses, which are not directly related to the sale of goods. It includes the distribution of indirect general expenses that are not specifically attributable to the cost of revenues.

Indirect expenses are allocated between cost of revenues, selling and distribution expenses, and general and administrative expenses, as needed, on a consistent basis.

Value Added Tax

Revenues, expenses and assets are recognized after deducting the amount of value added tax, except for:

- When the VAT incurred on the purchase of assets or services is not recoverable from the tax authority, then the VAT is recognized as part of the cost of acquiring the asset or as part of an expense item as appropriate; and
- Accounts receivable and payables are shown at the VAT amount included.
- The net amount of VAT recoverable from the Zakat, Tax and Customs Authority is included as part of advance payments and other current assets in the consolidated statement of financial position.

Earnings per share

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

Loans

Loans are initially recognized at fair value, net of transaction costs incurred. Loans are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in the consolidated statement of profit or loss over the borrowing period using the effective interest rate method. Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is repaid, canceled or expires. Loans are classified as current liabilities when the remaining maturity is less than twelve (12) months.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that require a significant period of time, i.e. more than one year, to become ready for their intended use, are added to the cost of these assets, until these assets become substantially ready for their intended use. No borrowing costs are capitalized during recessions. All other borrowing costs are recognized in the consolidated statement of profit or loss in the period in which they are incurred.

Provisions

A provision is recognized when, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. When the Group expects to recover some or all of the provisions, for example under an insurance contract, the recoveries are recognized as a separate asset only when the recovery is actually certain. The expense relating to the provision is presented in the consolidated statement of profit or loss and other comprehensive income, net of any recoveries.

Financing Income and Financing Costs

The Group's financing income and financing costs include the following:

- Interest income
- Interest expense
- Dividend income

Interest income and expenses are recognized using the effective interest rate method. Dividend income is recognized in profit or loss on the date the group's right to receive the payments is established.

The «**effective interest rate**» is the rate that exactly discounts payments or receipts of estimated future cash flows through the expected life of the financial instrument for:

- Total book value of financial assets; or
- The amortized cost of a financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when it is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that become credit-impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the financial asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Lease Contracts

At the inception of the contract, the Group makes an assessment to determine whether the contract is a lease or contains a lease. A contract is a lease or includes a lease if the contract includes the right to control the use of a specified asset for a period in exchange for a specified price.

To assess whether a contract transfers the right to control the use of a specific asset, the Group assesses whether:

- The contract involves the use of a specific asset – this may be explicitly or implicitly specified, and must be formally distinct or substantially represent a formally distinct asset. If the supplier has a substantive replacement right, the asset will not be identified.
- The Group is entitled to obtain substantially all of the economic benefits arising from the use of the assets over the period of use; and
- The Group has the right to direct the use of the asset. The Group reserves this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose an asset is used is predetermined, the Group has the right to direct the use of the asset if:
 - The group has the right to operate the asset, or
 - The group designed the asset in a way that pre-determines how and for what purpose it will be used.

The Company As Lessee

Right-of-Use Assets

The Group recognizes 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 initially at cost. It is subsequently measured at cost less accumulated depreciation and impairment losses, if any, and is adjusted for any remeasurements of lease liabilities.

The cost of right-of-use assets includes the initial measurement of lease liabilities adjusted for any lease payments made on or before the lease commencement date, any initial direct costs incurred and an estimate of decommissioning costs, less any lease incentives received. The estimated useful lives of right-of-use assets are determined on the same basis as for property and equipment. Right-of-use assets recognized using the straight-line method are depreciated over their estimated useful lives and the term of the lease, whichever expires first.

Lease Obligations

At the lease commencement date, the Group recognizes lease liabilities measured at the present value of the lease payments to be made over the term of the lease. Lease payments include fixed payments (including fixed content payments) less any lease incentives receivable and amounts expected to be paid under residual value guarantees, if any. Lease payments also include penalty payments resulting from the termination of the lease, if any, if the lease shows the Group exercising the option to terminate.

When calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the lease commencement date, the amount of the lease liability is increased to reflect the increase in interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification or change in the lease term or a change in fixed lease payments (i.e. changes to future payments resulting from a change in an index or rate used to determine those lease payments).

Short-Term Leases and Leases of Impaired Assets

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases with a lease term of twelve (12) months or less and leases of impaired assets.

Sector Reports

The operating segment is a component of a group that engages in business activities from which it can earn revenues and incur expenses. The revenues of all operating segments are reviewed regularly by the Group's Board of Directors (the chief operating decision maker), which in the case of the Group is to make decisions on allocating resources to the segments and assessing their performance. The Group's operating segments are analyzed and grouped based on the nature of the products and standardization of production processes.

6-1-5-1 Standards Issued But Not Yet Effective

The following are a number of new standards that are effective with early adoption is permitted, but the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

New Requirements Currently in effect

Effective date	New standards or amendments
1 January 2022G	Contracts expected to be lost - Cost of completing a contract - Amendments to IAS 37;
1 January 2022G	Annual improvements to international financial reporting standards (IFRS) 2018 - 2020
1 January 2022G	Property, plant and equipment - Proceeds before intended use: Amendments to IAS 16;
1 January 2022G	References to the Conceptual Framework - Amendments to IFRS 3

Expected requirements

Effective date	New standards or amendments
1 January 2023G	Classification of liabilities as current and non-current (Amendments to IAS 1)
1 January 2023G	IFRS 17 « Insurance Contracts », including amendments to the initial application of IFRS 17 and IFRS 9 - Comparative Information
1 January 2023G	Disclosure Initiative: Accounting Policies - Amendments to IAS 1 and IFRS 2 Practice List
1 January 2023G	Definition of Accounting Estimates - Amendments to IAS 8
1 January 2023G	Deferred tax relating to assets and liabilities arising from a single transaction - amendments to IAS 12
Will be defined later	Sale or contribution of assets between an investor and its associate or joint venture - Amendments to IFRS 10 and IAS 28

These new or amended standards mentioned above are not expected to have an impact on the Group's consolidated financial statements.

6-1-6 Summary of Financial Information and Key performance Indicators

Table No (120): Summary of financial information from the statement profit or loss and other comprehensive income for the fiscal years ending on December 31, 2020, 2021, and 2022G

(SAR)	Fiscal year 2020G (Audited)	Fiscal year 2021G (Audited)	Fiscal year 2022G (Audited)	Annual Change 2020 2021G	Annual change 2021 2022G	CAGR 2020G 2022G
Revenues	301,660,225	287,222,069	302,662,218	(4.8%)	5.4%	0.2%
Gross profit	176,378,064	174,578,209	184,290,817	(1.0%)	5.6%	2.2%
Operating profit	79,287,220	72,140,726	70,504,559	(9.0%)	(2.3%)	(5.7%)
Profit before Zakat	77,812,893	70,459,887	65,023,066	(9.4%)	(7.7%)	(8.6%)
profit for the year	72,812,893	66,283,077	59,451,749	(9.0%)	(10.3%)	(9.6%)
Items that will not be reclassified to profit or loss						
Equity investments at fair value through other comprehensive income - net change in fair value	-	(10,311,650)	(6,210,124)	N/A	(39.8%)	N/A
Remeasurement of defined benefit obligations	(1,340,804)	(4,119,191)	(3,701,639)	207.2%	(10.1%)	66.2%
Other comprehensive loss for the year	(1,340,804)	(14,430,841)	(9,911,763)	976.3%	(31.3%)	171.9%
Total comprehensive income for the year	71,472,089	51,852,236	49,539,986	(27.5%)	(4.5%)	(16.7%)

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022G

Table No (121): Summary of financial information from the consolidated statement of financial position for the fiscal years ending on December 31, 2020, 2021, and 2022G

(SAR)	Fiscal year as at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Non-current assets	145,434,025	147,562,086	150,736,070
Current assets	225,198,705	269,365,677	292,515,243
Total assets	370,632,730	416,927,763	443,251,313
Total Equity	252,428,865	267,081,101	280,273,633
Non-current liabilities	33,439,313	32,456,186	30,586,755
Current liabilities	84,764,552	117,390,476	132,390,925
Total Liabilities	118,203,865	149,846,662	162,977,680
Total equity and liabilities	370,632,730	416,927,763	443,251,313

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022G.

Table No (122): Summary of financial information from the audited statement of cash flows for the fiscal years ending on December 31, 2020, 2021, and 2022.

(SAR)	Fiscal year as at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Net cash generated from operating activities	45,371,967	41,913,007	68,236,676
Net cash used in investing activities	(62,456,072)	(24,800,352)	(19,983,230)
Net cash generated from (used in) financing activities	12,874,044	(14,000,949)	(43,498,176)

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022G.

Table No (123): Key performance indicators for the fiscal years ending on December 31, 2020, 2021, and 2022G

Income statement metrics			
As a percentage of revenue	Fiscal year 2020G (Audited)	Fiscal year 2021G (Audited)	Fiscal year 2022G (Audited)
Gross profit margin (1)	58.5%	60.8%	60.9%
Operating profit margin (2)	26.3%	25.1%	23.3%
EBITDA margin (3)	29.2%	28.4%	26.8%
Net profit margin (4)	24.1%	23.1%	19.6%
Selling and distribution expenses	(20,0%)	(21,7%)	(23,3%)
General and administrative expenses	(11,5%)	(13,1%)	(14,3%)
Other revenues/(expenses).	0.0%	0.9%	0.1%

Source: Extracted from the audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022G

1. Gross profit margin is defined as gross profit divided by revenue, and is a percentage.
2. Operating profit margin is defined as operating profit divided by revenue, and is a percentage.
3. EBITDA margin is defined as EBITDA divided by revenue, and is a percentage.
4. Net profit margin is defined as profit for the year divided by revenue, and is a percentage.

Table No (124): Statement of Financial position metrics

Statement of Financial position metrics			
	Fiscal year 2020G (Audited)	Fiscal year 2021G (Audited)	Fiscal year 2022G (Audited)
Receivables turnover rate (days) (1)	133	209	184
Inventory turnover rate (days) (2)	240	241	309
Payables turnover rate (days) (3)	57	138	97
Cash turnover rate (days) (4)	316	312	395
Return on assets (5)	19.6%	15.9%	13.4%
Return on equity (6)	28.8%	24.8%	21.2%

Source: Extracted from the audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022G

1. The receivables turnover rate (days) is calculated based on the group's total revenues during the year.
2. Inventory turnover (days) is calculated based on the cost of goods sold during the year.
3. The accounts payable turnover rate (days) is calculated based on the cost of purchases during the year.
4. Cash turnover rate (days) is calculated based on the sum of accounts receivable turnover rate, inventory turnover rate, and accounts payable turnover rate.
5. Return on assets is calculated as follows: net profit for the year / total assets at the end of the year.
6. Return on equity is calculated as follows: Net profit for the year / Total equity at the end of the year.

6-2 Results of Operations for the fiscal years ending on 31 December 2020G, 2021G, and 2022G

The selected financial information of the Company and the key performance indicators of the group shown below should be read in conjunction with the financial information for the fiscal years ending on 31 December 2020G, 2021G, and 2022G, which was prepared in accordance with the International Financial Reporting Standards approved by the International Accounting Standards Board approved in the Kingdom and other standards and issuances approved by SOCPA, each of which is included in Section No. (19) «**The Financial Statements and Auditors Report**» of this Prospectus.

6-2-1 Statement of Comprehensive Income for the fiscal years ending on 31 December 2020G, 2021G, and 2022G

Table No (125): Statement of comprehensive income for the fiscal years ending on December 31, 2020, 2021, and 2022

(SAR)	Fiscal year 2020G (Audited)	Fiscal year 2021G (Audited)	Fiscal year 2022G (Audited)	Annual Change 2020 2021G	Annual change 2021 2022G	CAGR 2020G 2022G
Revenues	301,660,225	287,222,069	302,662,218	(4.8%)	5.4%	0.2%
Cost of revenue	(125,282,161)	(112,643,860)	(118,371,401)	(10.1%)	5.1%	(2.8%)
Gross profit	176,378,064	174,578,209	184,290,817	(1.0%)	5.6%	2.2%
Selling and distribution expenses	(60,226,046)	(62,261,218)	(70,419,883)	3.4%	13.1%	8.1%
General and administrative expenses	(34,817,850)	(37,558,079)	(43,404,741)	7.9%	15.6%	11.7%
Impairment loss on trade receivables	(2,000,000)	-	(130,000)	(100%)	N/A	(74.5%)
Other revenues/(expenses).	(46,948)	(2,618,186)	168,366	5476.8%	(106.4%)	N/A
Operating profit	79,287,220	72,140,726	70,504,559	(9.0%)	(2.3%)	(5.7%)
Financing costs	(1,474,327)	(1,680,839)	(5,481,493)	14.0%	226.1%	92.8%
Profit before Zakat	77,812,893	70,459,887	65,023,066	(9.4%)	(7.7%)	(8.6%)
Zakat expense	(5,000,000)	(4,176,810)	(5,571,317)	(16.5%)	33.4%	5.6%
profit for the year	72,812,893	66,283,077	59,451,749	(9.0%)	(10.3%)	(9.6%)
Items that will not be reclassified to profit or loss						
Equity investments at fair value through other comprehensive income - net change in fair value	-	(10,311,650)	(6,210,124)	N/A	(39.8%)	N/A
Remeasurement of defined benefit obligations	(1,340,804)	(4,119,191)	(3,701,639)	207.2%	(10.1%)	66.2%
Other comprehensive loss for the year	(1,340,804)	(14,430,841)	(9,911,763)	976.3%	(31.3%)	171.9%
Total comprehensive income for the year	71,472,089	51,852,236	49,539,986	(27.5%)	(4.5%)	(16.7%)
As a % of revenues						
Gross profit %	58.5%	60.8%	60.9%	2.3%	0.1%	2.4%
Operating profit %	26.3%	25.1%	23.3%	(1.2%)	(1.8%)	(3.0%)
EBITDA margin	29.2%	28.4%	26.8%	0.8%	1.6%	2.4%
Net profit for the year %	24.1%	23.1%	19.6%	(1,1%)	(3.4%)	(4.5%)
Selling and distribution expenses	(20.0%)	(21.7%)	(23.3%)	(1.7%)	(1.6%)	(3.3%)
General and administrative expenses	(11.5%)	(13.1%)	(14.3%)	(1.5%)	(1.3%)	(2.8%)

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022G

Revenues

The Company witnessed exceptional sales in 2020G for EZ Clean sterilizer products (SAR 92.5 million) due to the high demand for them after the beginning of the Corona pandemic, compared to only SAR 19.7 million in 2021G, and this was clearly reflected in the revenues of 2021G, as revenues recorded a noticeable decrease by 4.8% (from SAR 301.7 million in 2020G to SAR 287.2 million in 2021G). This was accompanied by a growth in sales volume from the Company's two largest selling products Avogain (a topical solution that stimulates hair growth and prevents hair loss) and Salinose (a saline solution to moisturize and cleanse the nose) (SAR +15.5 million combined), in addition to an increase in revenues of the 8 largest other products (SAR + 28.3 million). The recovery in revenue growth for the fiscal year 2021G - excluding revenues from EZ Clean sterilizer products - was noticeable across all sectors (retail, government, and export), and across all products given that the sale of products not related to the Corona pandemic was negatively affected during the pandemic.

Revenues increased by 5.4% to SAR 302.7 million in 2022G, mainly driven by sales volume growth from top two products Avogain (topical solution that stimulates hair growth and prevents hair loss) and Salinose (saline solution to moisturize and cleanse the nose) (+SAR 47.4 million), which Partially offset by a decrease in the average net selling price from tenders and from other sales channels (more tenders at lower net selling prices compared to retail and export channels).

Cost of Revenue

The revenue cost mainly included the consumption of raw materials and packaging including the change in inventory (about 60% of the total revenue cost in the period 2020G-2022G), factory labor costs (about 19%); and indirect manufacturing costs (about 14%), which include rent, maintenance, utilities, and others.

Cost of revenues decreased from SAR 125.3 million in 2020G to SAR 112.6 million in 2021G; This is due to the decrease in revenues and thus a decrease in the cost of raw materials and packaging costs.

The cost of revenues increased from SAR 112.6 million in 2021G to SAR 118.4 million in 2022G, due to the increase in revenues that led to a corresponding increase in the cost of raw materials and the cost of packaging.

Gross Profit

Gross profit as a percentage of revenue showed an improvement from 58.5% in 2020G to 60.8% and 60.9% in 2021G and 2022G, respectively. This is mainly due to the increase in the profit margin of EZ Clean sterilizer products during those years compared to 2020G, in addition to the improvement in the net selling price. (After rebates/discounts) and prices of raw materials and packaging. The Company's gross profit margin is also affected by the types of products sold, as some products with high demand have lower profit margins. The gross profit is also affected by the sales channels, as tenders usually return lower profit margins than retail and export channels.

Selling and Distribution Expenses

Selling and distribution expenses included expenses for salaries and other related benefits (representing about 37% of the total selling and distribution expenses in 2022G), marketing and advertising expenses (28%), and housing and catering expenses (10%) in addition to other expenses.

1. Selling and distribution expenses increased from SAR 60.2 million in 2020G to SAR 62.3 million in 2021G as a result of:
2. Salaries and other benefits (including housing, transportation, etc.) increased by SAR 1.5 million in 2021G due to the hiring of additional employees (+13), and

an increase in marketing and advertising expenses (SAR + 1.9 million) given that the year 2020G was affected by the Corona pandemic, which led to a decrease in marketing and advertising expenses in that year.

This was partially offset by lower freight costs (SAR -1.2 million) in line with lower revenues from government sector sales.

Selling and distribution expenses increased to SAR 70.4 million in 2022G, mainly due to:

1. Increased staff costs by SAR 3.2 million due to the hiring of 9 additional employees,
2. Increased promotional cost by SAR 1.8 million due to offers, such as «**buy one get one free**» and other offers,
3. Increasing shipping expenses by SAR 1.7 million in line with the increase in revenues,
4. Communications expenses increased by SAR 0.5 million due to the increase in fees for new subscriptions to the Saudi Food and Drug Authority's programs for tracking products.

General and administrative expenses

General and administrative expenses included salaries and other benefits expenses (accounting for approximately 41% of total general and administrative expenses in 2022G), housing and catering expenses (9%), communications expenses (8%), professional fees (6%), and government and legal fees (4%).

General and administrative expenses increased from SAR 34.8 million in 2020G to SAR 37.6 million in 2021G, driven primarily by an increase in legal and government fees (SAR +1.3 million), which was mainly attributable to an increase in registration fees for products that rely on the regions and timing of registration.

In 2022G, general and administrative expenses increased to SAR 43.4 million, mainly due to:

1. Payment of bonuses to the Board of Directors/Audit Committee (SAR 1.2 million) after converting Avalon Pharma from a limited liability company to a closed joint stock company,
2. An increase in professional fees (SAR 900 thousand), including non-recurring costs (amounting to SAR 0.5 million), and recurring costs related to preparation expenses for the initial public offering (SAR 0.4 million),
3. An increase in the cost of employees (which includes salaries and other related benefits, housing and catering expenses, General Organization for Social Insurance expenses, medical insurance, transportation allowance, vacation expenses, and visa and residency expenses for employees) by an amount of SAR 1.7 million due to the increase in the number of employees (+ 9 employees).
4. An increase in travel expenses by SAR 0.5 million.

Impairment Loss on Trade Receivables

Impairment loss on trade receivables represents the expense charged to doubtful debts based on expected credit losses.

Impairment losses on trade receivables amounted to SAR 2.0 million in 2020G. There are no additional losses in 2021G and they amounted to only SAR 130.0 thousand in 2022G because the provisions made were sufficient.

Other Revenues/(Expenses)

Other income/(expenses) primarily include the following:

1. Loss of income from the exclusion of investment in shares in Columbia Care International Holdco, amounting to SAR 2.8 million in 2021G (nil in 2020G and 2022G). This investment, which represents 5% of the shares of Columbia Care International Holdco Company, was excluded through a swap agreement, as it obtained Avalon Pharma in exchange for 783,805 shares (about 0.02% of the total number of shares) in the American company Columbia Care Inc., which is a public joint stock company (listed on the NEO stock market in Canada) and is located in the Delaware, United States;
2. Other revenues related to the sale of operational waste and furniture include empty drums (drums) worth SAR 0.5 million and the sale of air conditioners and old warehouse furniture for SAR 0.1 million in 2022G;
3. Actual foreign currency gain or loss (SAR -0.3 million in 2020G, SAR +0.2 million in 2021G, and SAR +0.3 million in 2022G).

Financing Costs

Financing costs mainly included financing fees for credit facilities, which consist of short-term loans and working capital facilities (about 74% of the total financing costs in the period between 2020G and 2022G), in addition to the interest cost of defined benefit obligations for employees, which results from the actuarial study. (about 26% of the total financing costs, 26% during the year 2022G).

Financing fees on credit facilities increased from SAR 1.0 million in 2020G and SAR 1.2 million in 2021G to SAR 4.7 million in 2022G after increasing the SIBOR rate from about 1% to about 3% in fiscal year 2022G.

The interest cost of employee defined benefit obligations resulting from the actuarial study stabilized at 0.5 million Saudi riyals in fiscal years 2020G and 2021G, then increased slightly to SAR 0.7 million in fiscal year 2022G.

Zakat Expense

The Zakat provision is calculated in accordance with the regulations of the Zakat, Tax and Customs Authority in the Kingdom of Saudi Arabia on an accrual basis. The decrease in Zakat from SAR 5.0 million in 2020G to SAR 4.2 million in 2021G is mainly due to the reversal of the previous year's accrual surplus of SAR 0.6 million during the year 2021G.

Zakat expense increased to SAR 5.6 million Saudi riyals in 2022G as a result of the increase in the zakat base in line with the increase in the Company's business volume.

Net profit

Net profit decreased from SAR 72.8 million in 2020G to SAR 66.3 million in 2021G as a result of the following:

- A decrease in gross profit by SAR 1.8 million, and an increase in selling and distribution expenses by SAR 2.0 million.
- General and administrative expenses decreased by SAR 2.7 million.
- Other expenses decreased by SAR 2.6 million.

This was offset by a decrease in impairment losses on trade receivables by SAR 2.0 million. Net profit decreased from SAR 66.3 million in 2021G to SAR 59.5 million in 2022G as a result of:

- Selling and distribution expenses increased by SAR 8.2 million,
- Increase in general and administrative expenses by SAR 5.8 million,
- Increased financing cost by SAR 3.8 million,
- Zakat expenses increased by SAR 1.4 million Saudi riyals.

This increase was offset by an increase in gross profit by 9.7 million Saudi riyals and other income by SAR 2.8 million.

Equity investments at fair value through other comprehensive income - net change in fair value

The net fair value of Columbia Care Inc. shares is calculated based on the market price. As of 31 December 2021G, the market price of Columbia Care Inc.'s stock was CAD 3.62 per share, resulting in a total fair value loss of SR 10.3 million. As of 31 December 2022G, the share price fell again to CAD 1.02, resulting in a fair value loss of SAR 6.2 million.

Remeasurement of Defined Benefit Obligations

Employee benefit liabilities have been remeasured based on actuarial study, and their fluctuations are based on changes in the discount rate, future salary increase rate, number of employees, retirement age, mortality rate and other assumptions.

6-2-1-1 Revenues

Table No. (126): Revenues by customer type for the fiscal years ending on December 31, 2020, 2021, and 2022

(SAR)	Fiscal year 2020G (Audited)	Fiscal year 2021G (Audited)	Fiscal year 2022G (Audited)	Annual Change 2020 2021G	Annual change 2021 2022G	CAGR 2020G 2022G
Retail clients	190,917,523	194,141,569	207,967,773	1.7%	7.1%	4.4%
Government sector clients*	88,160,264	65,638,989	68,583,501	(25.5%)	4.5%	(11.8%)
Total local	279,077,787	259,780,558	276,551,274	(6.9%)	6.5%	(0.5%)
Export clients	22,582,438	27,441,511	26,110,944	21.5%	(4.8%)	7.5%
Total revenue	301,660,225	287,222,069	302,662,218	(4.8%)	5.4%	0.2%
	As a percentage of the total			Percentage Point		
Retail clients	63.3%	67.6%	68.7%	4.3	1.1	5.4
Government sector clients*	29.2%	22.9%	22.7%	(6.4)	(0.2)	(6.6)
Total local	92.5%	90.4%	91.4%	(2.1)	0.9	(1.1)
Export clients	7.5%	9.6%	8.6%	2.1	(0.9)	1.1

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

* Government sector clients' revenues include Wasfaty program revenues.

Revenues from local sales (an average of about 91.4% of total revenues between 2020G and 2022G) include revenues from retail customers and government sector customers, (which also includes revenues from the Wasfaty program, and the tender service with NUPCO). As for foreign revenues (8.6%), they relate to export clients only in the same year.

Retail Clients

Average retail customer revenue represented 66.6% of total revenue in 2020G, 2021G and 2022G, and revenue related to retail customers resulted from sales to large pharmacy chains, sub-agents and hospitals (including pharmacies located on hospital buildings). The Company's 10 largest retail customers contributed about 43% of total retail customer revenues in 2020G, and the percentage increased to 48% in 2022G.

The Company's main best-selling products played a role in the increase in revenues related to retail customers from SAR 190.9 million in 2020G to SAR 194.1 million in 2021G, as revenues from sub-agents increased from SAR 30.1 million in 2020G to SAR 44.4 million in 2021G, and pharmacy chains from SAR 93.9 million in 2020G to SAR 98.1 million in 2021G. This was partially offset by a decrease in revenues from all other customers as a result of the decrease in sales of disinfectant products (EZ Clean) after the Corona pandemic.

Retail customer revenues increased by SAR 13.8 million in 2022G due to an increase of SAR 23.7 million in sub-agent revenues and SAR 3.6 million in hospital revenues, which were partially offset by a decrease in revenues of pharmacy chains and other customer categories by amounts of SAR 7.1 million and SAR 6.3 million respectively due to a decrease in revenues from Alpha Plus products (a cream to lighten pigmentation and unify skin tone).

Government Sector Clients

Revenues related to government sector customers decreased from SAR 88.2 million in 2020G to SAR 65.6 million in 2021G, mainly driven by a decrease in sales of disinfectant products (EZ Clean). This sterile product (EZ Clean) contributed a value of SAR 59.5 million, which represents about 67.5% of the total revenues from government sales in 2020G, as revenues from it decreased to SAR 16.7 million in 2021G (representing about 25.5% of the total government revenues). This was partially offset by an increase in sales of most other products to the government sector in 2021G after the Corona pandemic.

During 2022G, revenues related to government sector customers increased to SAR 68.6 million, mainly due to an increase in direct sales to Nupco by SAR 4.6 million and the Wasfaty government tender amounting to SAR 6.9 million.

Export Clients

Revenues related to export customers increased from SAR 22.6 million in 2020G to SAR 27.4 million in 2021G as a result of:

1. Entering the Iraqi market during the year 2021G, which led to achieving additional revenues amounting to SAR 2.8 million, and
2. Increased sales in Kuwait by SAR 1.7 million.

Revenues related to export customers decreased to SAR 26.1 million in 2022G, mainly due to a decrease in sales in the United Arab Emirates by SAR 3.3 million. This was the result of the Company dealing with one distributor in 2022G in the United Arab Emirates compared to three distributors during the previous year.

This was accompanied by an increase in the number of distributors in Jordan (+1), which led to an increase in revenues from Jordan by SAR 1.4 million, in addition to an increase in revenues from the State of Kuwait by SAR 0.4 million.

Total No (127): Revenues by type for the fiscal years ending on December 31, 2020, 2021, and 2022G

(SAR)	Fiscal year 2020G (Audited)	Fiscal year 2021G (Audited)	Fiscal year 2022G (Audited)	Annual Change 2020 2021G	Annual change 2021 2022G	CAGR 2020G 2022G
Dermatologicals and skin care products	105,741,769	143,041,775	150,254,923	35.3%	5.0%	19.2%
Respiratory system	35,381,953	49,539,467	71,996,062	40.0%	45.3%	42.6%
Nervous system	22,361,562	27,466,669	26,020,995	22.8%	(5.3%)	7.9%
Digestive system	6,824,426	11,303,999	13,463,349	65.6%	19.1%	40.5%
Musculoskeletal system	10,776,645	14,194,262	11,620,794	31.7%	(18.1%)	3.8%
Other	120,573,870	41,675,897	29,306,095	(65.4%)	(29.7%)	(50.7%)
Total revenue	301,660,225	287,222,069	302,662,218	(4.8%)	5.4%	0.2%

(SAR)	Fiscal year 2020G (Audited)	Fiscal year 2021G (Audited)	Fiscal year 2022G (Audited)	Annual Change 2020 2021G	Annual change 2021 2022G	CAGR 2020G 2022G
As a percentage of the total			Percentage Point			
Dermatologicals and skin care products	35.1%	49.8%	49.6%	14.7	(0.2)	14.6
Respiratory system	11.7%	17.2%	23.8%	5.5	65	12.1
Nervous system	7.4%	9.6%	8.6%	2.2	(1.0)	1.2
Digestive system	2.3%	3.9%	4.4%	1.7	0.5	2.2
Musculoskeletal system	3.6%	4.9%	3.8%	1.4	(1.1)	0.3
Others	40.0%	14.5%	9.7%	(25.5)	(4.8)	(30.3)

Source: Management information for the years ended on 31 December 2020, 2021 and 2022G

The Company's products fall under several therapeutic categories, and the two main categories are (1) Dermatologicals, and skin care products, which had the largest share of total revenues during the years 2020G, 2021G, and 2022G, at 35.1%, 49.8%, and 49.6%, respectively, and (2) Respiratory medications, which had the second largest share of total revenues during the same years at 11.7%, 17.2%, and 23.8%, respectively.

Other therapeutic categories include nervous system medications, digestive system medications, and musculoskeletal medications, in addition to various other therapeutic categories, revenues from which together constituted 53.2%, 33.0%, and 26.6% of total revenues during the years 2020G and 2021G. and 2022G, respectively.

Dermatologicals and Skin Care Products

This category includes multi-use medicines, products and preparations that help treat skin diseases such as bacterial and fungal infections, dermatitis, dryness and cracks in the skin, burns and scars, skin care and skin health and hygiene. These products come in the form of creams, ointments, gels, hair sprays and shampoos.

Revenues from Dermatologicals, and skin care products increased from SAR 105.7 million in 2020G to SAR 143.0 million in 2021G, with increased demand for them. The increase resulted mainly from:

1. Increase in sales volume of Avogain (topical solution that stimulates hair growth and prevents hair loss) following increased demand for this category of products (SAR +15.0 million), and
2. Increased revenues from Alpha Plus (a cream to lighten pigmentation and unify skin tone) due to the impact of its marketing via social media on sales volume (SAR +11.4 million).

During the year 2022G, revenues from this therapeutic category increased by SAR 7.2 million due to the increase in revenues resulting from sales of Avogain (a topical solution that stimulates hair growth and prevents hair loss), as the high demand for that product continued (SAR +24.3 million), partially offset by a decrease in revenues from Alpha Plus (a cream to lighten pigmentation and unify skin tone) (SAR -8.9 million), which returned to the levels they were in 2020G, and Avomeb (an ointment used to soothe wounds and burns) (SAR -5.6 million) after the emergence of competing products in Market in 2021G.

Respiratory Medications

The respiratory category includes multi-use medications that help treat nasal allergies, asthma, and respiratory diseases. These products come in the form of capsules, inhalers, nasal sprays, syrups and tablets.

Revenues for 2020G are relatively and exceptionally low due to social distancing, lockdowns, face masks and other measures implemented during the Corona pandemic, which negatively affected sales of Salinose (saline solution to moisturize and cleanse the nose) and Avocom NS (aqueous nasal spray used to treat symptoms of allergic rhinitis), seasonal and perennial rhinitis), and respiratory medicine revenues increased from SAR 35.4 million in 2020G to SAR 49.5 million in 2021G, driven primarily by the return of demand for Salinose (+ SAR 7.1 million) and Avocom NS. (SAR 1.4 million) after the Corona pandemic.

Respiratory medicine revenues increased to SAR 72.0 million in 2022G, driven by increased sales volume generated from Salinose products (+SAR 14.0 million) after the inclusion of all Salinose brands in multiple sizes in the insurance list, partially offset by a decrease in the average net selling price of the Company's various sales channels due to the higher discount rates that the Company granted to pharmacy chains in an effort to gain additional market share.

Nervous System Medications

The nervous system category includes multi-use products that help with nerve anesthesia and treat nerve and nervous system problems. These products come in the form of creams, sprays and tablets.

Neurology revenues increased from SAR 22.4 million in 2022G to SAR 27.5 million in 2021G, driven primarily by:

1. An increase in revenues for Prila products (SAR+ 3.8 million) as its sales levels in 2020G were exceptionally low due to the closure of dermatology clinics during the Corona pandemic and the entry of competing products into the Kingdom's market in the same year, and
2. Increased Avocaine product revenues (SAR +2.0 million) as its sales levels in 2020G were exceptionally low due to the closure of dermatology clinics during the Corona pandemic.

Nervous system medications revenues decreased to SAR 26.0 million in 2022G, and the main reason for this was the decrease in Prila revenues (SAR 1.2 million) after a decrease in the net selling price due to the increase in discounts granted to retailers with the aim of maintaining sales volume and competing with competing products.

Digestive system Drugs

The digestive system category includes multi-use medications that help treat digestive and internal diseases and nutritional problems. These products come in the form of capsules and tablets.

Gastrointestinal medicines revenues increased from SAR 6.8 million in 2020G to SAR 11.3 million in 2021G, mainly due to growth in sales volume of Avohex (mouthwash to relieve gingivitis) by (+ SAR 2.6 million) and higher net selling price by (SAR+ 0.6 million).

Gastrointestinal drug revenues increased from SAR 11.3 million in 2021G to SAR 13.5 million in 2022G, also driven by the growth in demand for Avohex (SAR + 3.6 million), which is a non-prescription product that does not require a prescription.

Musculoskeletal drugs

The musculoskeletal category includes multi-use medications that help relieve musculoskeletal pain. These products come in the form of creams, sprays, rolls, and tablets.

Musculoskeletal drug revenues increased from SAR 10.8 million in 2020G to SAR14.2 million in 2021G, mainly driven by an increase in the sales volume of Avalonactiv (a cream to relieve muscle and joint pain) by (SAR+3.2 million), as Sales levels in 2020G are considered exceptionally low due to the Corona pandemic.

During the year 2022G, revenues from musculoskeletal drugs decreased to SAR 11.6 million, mainly due to a decrease in the sales volume of Avalonactiv (SAR - 3.3 million) after the Company noticed some slowdown in demand for it.

Medicines and Other Preparations

Other therapeutic categories include the sexual, diabetes, and cardiovascular categories. In addition to anti-infectives and medications, anti-parasitic medications, pain-relieving medications, anesthesia products, antiseptics and disinfectants, as well as women's and men's health medications. These products come in the form of creams, dispensers, gels, hand sanitizers, lubricating gels, mouthwashes, soaps, solutions, sprays, surgical scrubs, tablets and vaginal douches.

Other pharmaceutical revenues (SAR 29.3 million in 2022G) included revenues related to the following sectors: sexual system (SAR 5.2 million), cardiovascular system and diabetes (SAR 4.8 million), anti-infectives and medications (SAR 2.2 million), Antiparasitic drugs (SAR 3.1 million), and many other various categories (SAR 11.6 million) that mainly include antiseptics and disinfectants, pain relievers and anesthesia products, and also the women's and men's health category.

Other pharmaceutical revenues decreased between fiscal years 2020G and 2022G by SAR 91.3 million, mainly due to a decrease in sales of products that witnessed exceptional demand during the Corona pandemic (sterilizer products (EZ Clean), face masks, and disinfectant dispensers) by SAR 77 million per year in Financial 2021G and SAR 11.9 million in Fiscal year 2022G.

Table No (128): Revenues by production line for the fiscal years ending on December 31, 2020, 2021, and 2022G

(SAR)	Fiscal year 2020G (Audited)	Fiscal year 2021G (Audited)	Fiscal year 2022G (Audited)	Annual Change 2020 2021G	Annual change 2021 2022G	CAGR 2020G 2022G
liquid	61,469,370	102,324,609	149,713,427	66.5%	46.3%	56.1%
Cream	97,985,389	114,534,830	93,015,611	16.9%	(18.8%)	(2.6%)
Disinfectants	113,419,966	43,291,625	30,956,980	(61.8%)	(28.5%)	(47.8%)
Solid	15,882,094	20,942,579	20,911,442	31.9%	(0.1%)	14.7%
Makeup	6,636,771	2,790,203	4,801,792	(58.0%)	72.1%	(14.9%)
Imported	6,266,635	3,338,223	3,262,966	(46.7%)	(2.3%)	(27.8%)
Total revenue	301,660,225	287,222,069	302,662,218	(4.8%)	5.4%	0.2%
	As a percentage of the total			Percentage Point		
liquid	20.4%	35.6%	49.5%	15.2	13.8	29.1
Cream	32.5%	39.9%	30.7%	7.4	(9.1)	(1.7)
Disinfectants	37.6%	15.1%	10.2%	(22.5)	(4.8)	(27.4)
Solid	5.3%	7.3%	6.9%	2.0	(0.4)	1.6
Makeup	2.2%	1.0%	1.6%	(1.2)	0.6	(0.6)
Imported	2.10%	1.2%	1.1%	(0.9)	(0.1)	(1.0)

Source: Management information for the years ended on 31 December 2020, 2021 and 2022G

Liquid

Revenues related to liquid products increased from SAR 61.5 million in 2020G to SAR 102.3 million in 2021G, driven mainly by sales of Avogain (topical solution that stimulates hair growth and prevents hair loss) and Salinose (saline solution to moisturize and cleanse the nose) (+SAR 22.0 million).

Revenues related to liquid products increased to SAR 149.7 million in 2022G due to higher sales related to sales of Avogain (a topical solution that stimulates hair growth and prevents hair loss) and Salinose (a saline solution to moisturize and clean the nose) by SAR 39.2 million (its sales accounted for 80% of the total increase).

Cream

Revenues related to cream products increased from 98.0 million Saudi riyals in 2020G to 114.5 million Saudi riyals in 2021G, driven by higher sales of Alpha Plus (cream to lighten pigmentation and unify skin tone) (SAR 10.4 million) and Prila (anesthetic cream) (SAR 3.8 million).

Revenues related to cream products decreased to SAR 93.0 million in 2022G, mainly due to a decrease in sales of Alpha Plus (a cream to lighten pigmentation and unify skin tone) by SAR 8.9 million, and Avomeb (an ointment used to soothe wounds and burns) by SAR 5.6, and Avogain (a topical cream to lighten skin areas) for SAR 3.8 million.

Disinfectants

Revenues related to sterilizer products decreased significantly from SAR 113 million in 2020G to SAR 43.2 million in 2021G and to SAR 30.9 million in 2022G due to a decrease in sales of sterilizer products (a decrease of SAR 72.7 million in 2021G and SAR 11.3 million in 2022G) after easing the restrictions of the Corona pandemic, which reduced the use of sterile products in general.

Solid

Revenues related to solid products increased from SAR 15.9 million in 2020G to SAR 20.9 million in 2021G as a result of an increase in sales of Amodip (a medicine for high blood pressure and a preventive treatment for angina) by SAR 1.7 million, Amaglime (a medicine to reduce the level of blood sugar used to treat cases of Certain diabetes mellitus) amounting to SAR 0.9 million and Candan (a medicine used to treat high blood pressure) amounting to SAR 0.8 million.

Revenues related to solid products remained stable at SAR 20.9 million in 2022G.

Cosmetics (Makeups)

Revenues related to cosmetics products decreased from SAR 6.6 million in 2020G to 2.8 million Saudi riyals in 2021G mainly as a result of a decrease in sales of Care EZ products (skin care brand of facial and body moisturizers and cleansers) from SAR 4.2 million in 2020G to SAR 1.1 in 2021G.

Revenues related to cosmetics products increased again to SAR 4.8 million in 2022G, after the launch of multiple new sizes of EZ Care products, which led to an increase in sales of this product to SAR 4.3 million in 2022G.

Imported

Imported products include products that are not produced by the Company and are obtained from international companies and marketed in the Kingdom, such as Emulsion (essential oils), Rolenium (used to treat asthma), Alpha Plus Mask (a mask to lighten pigmentation and unify skin tone), and some products related to the Corona pandemic in 2020G, such as dispensing devices. Disinfectants and face masks.

As a result of the Corona pandemic in 2020G, the Company witnessed an exceptional demand for imported products such as sterilizer dispensers and face masks, the sales of which decreased in the following year 2021G by SAR 2.9 million after the restrictions of the Corona pandemic were eased, bringing revenues from them to SAR 3.2 million. The decrease in sales of products whose consumption increased due to the Corona pandemic in 2021G was offset by an increase in sales of Alpha Plus Mask after the launch of two new skin mask products, which contributed SAR 0.6 million to the total value of the increase. Revenues in 2022G stabilized at SAR 3.3 million compared to 2021G.

6-2-1-2 Cost of Revenues

Table N0 (129): Cost of revenues for the fiscal years ending on December 31, 2020, 2021, and 2022

(SAR)	Fiscal year 2020G (Audited)	Fiscal year 2021G (Audited)	Fiscal year 2022G (Audited)	Annual Change 2020 2021G	Annual change 2021 2022G	CAGR 2020G 2022G
Opening stock of finished goods*	14,232,848	24,071,800	24,110,731	69.1%	0.2%	30.2%
Add: Direct purchases*	3,382,361	5,316,553	3,282,777	57.2%	(38.3%)	(1.5%)
Add: cost of manufactured goods						
Cost of raw materials*	45,323,989	33,696,989	39,103,491	(25.7%)	16.0%	(7.1%)
Cost of packaging materials*	39,078,218	34,702,288	44,730,320	(11.2%)	28.9%	7.0%
Indirect Labor*	13,007,696	16,369,628	17,120,376	25.8%	4.6%	14.7%
Direct labor*	6,981,039	5,609,681	7,255,893	(19.6%)	29.3%	1.9%
Depreciation	4,134,237	4,205,615	3,988,064	1.7%	(5.2%)	(1.8%)
Amortization	123,937	14,082	17,220	(88.6%)	22.3%	(62.7%)
Cost of other manufactured goods *	23,089,636	12,767,955	15,645,797	(44.7%)	22.5%	(17.7%)
Total cost of manufactured goods *	131,738,752	107,366,238	127,861,161	(18.5%)	19.1%	(1.5%)
Deduct: Closing inventory of finished goods*	(24,071,800)	(24,110,731)	(36,883,268)	0.2%	53.0%	23.8%
Total cost of revenue	125,282,161	112,643,860	118,371,401	(10.1%)	5.1%	(2.8%)

(SAR)	Fiscal year 2020G (Audited)	Fiscal year 2021G (Audited)	Fiscal year 2022G (Audited)	Annual Change 2020 2021G	Annual change 2021 2022G	CAGR 2020G 2022G
	As a percentage of the total			Percentage Point		
Opening stock of finished goods*	11.4%	21.4%	20.4%	10.0	(1.0)	9.0
Add: Direct purchases*	2.7%	4.7%	2.8%	2.0	(1.9)	0.1
Cost of raw materials*	36.2%	29.9%	33.0%	(6.3)	3.1	(3.1)
Cost of packaging materials*	31.2%	30.8%	37.8%	(0.4)	7.0	6.6
Indirect Labor*	10.4%	14.5%	14.5%	4.1	(0.1)	4.1
Direct labor*	5.6%	5.0%	6.1%	(0.6)	1.1	0.6
Depreciation	3.3%	3.7%	3.4%	0.4	(0.4)	0.1
Amortization	0.1%	0.0%	0.0%	(0.1)	0.0	(0.1)
Cost of other manufactured goods *	18.4%	11.3%	13.2%	(7.1)	1.9	(5.2)
Deduct: Closing inventory of finished goods*	(19.2%)	(21.4%)	(31.2%)	(2.2)	(9.8)	(11.9)

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022G.

* The figures have been restated as of 31 December 2020G, according to the classification in the audited consolidated financial statements ending on 31 December 2022G.

Opening/Closing Stock of Finished Goods

The stock level of finished goods remained stable at the end of 2021G at SAR 24.1 million. The Company increased the size of its stock of finished goods significantly in 2022G to reach SAR 36.9 million after the new regulations issued by the Saudi Food and Drug Authority were imposed. Manufacturers must maintain at least 6 months of inventory.

Direct purchases

The cost of direct purchases increased from SAR 3.4 million in 2020G to SAR 5.3 million in 2021G. This is due to the purchase of imported Emulsion products to cover the increased demand that the Company expected in the following year, 2022G. Direct purchases returned to SAR 3.3 million in 2022G.

Cost of Raw Materials and Packing Materials

The total cost of raw materials and packaging materials decreased from SAR 84.4 million in 2020G to SAR 68.4 million in 2021G, driven mainly by a decrease in sales volume of SAR 20.2 million, mainly due to:

1. The decrease in the quantities consumed of ethanol (a solvent used in the pharmaceutical industry) - «**99.9% ethanol**» category from 1.8 million units in 2020G to 260.7 thousand units in 2021G, and
2. The decrease in the quantities consumed in the «**96.0% ethanol**» category from 1.4 million units in 2020G to 95.9 thousand units in 2021G, and
3. Reduced use of packaging materials, containers, etc., amounting to SAR 4.4 million in line with the decrease in sales.

The increase in ethanol prices (SAR 5.4 million) reduced the value of the decrease in sales costs, as the unit price of the raw material «**ethanol 99.9%**» increased from SAR 6.6 to SAR 13.8 per unit, and the unit price of the raw material «**ethanol 96.0%**» also increased. %" from SAR 5.8 to SAR 11 per unit, meaning that they together contributed to an increase of SAR 2.4 million in material costs despite the decrease in the quantities consumed.

During the year 2022G, the cost of raw materials increased to SAR 83.8 million, mainly driven by the following:

1. Increased sales volume (SAR 12.7 million), mainly from «**Avogain**» and «**Minoxidil**» (used in Avogain products), «**Eletriptan hydrobromide**» (used in research and development), and «**Pump Shenzhen bona**» (used in Avogain products). Rhinaze, Avocom NS, and Salinose Baby).

2. An increase in the prices of raw materials (SAR 3.7 million), mainly in the price of «Cetostearyl» (used in cream products) from SAR 10.6 to SAR 11 per unit and «Propylene Glycol» (used in most cream products) from SAR 7.2 to SAR 12.2 per unit.

Indirect Labor

Indirect labor costs increased from SAR 13.0 million in 2020G to SAR 16.4 million in 2021G due to:

1. High number of employees (+4), and
2. Increase salaries, and
3. Reclassifying the cost of temporary labor, which amounted to SAR 1.2 million, from direct labor to indirect labor.

Indirect labor costs increased from SAR 16.4 million in 2021G to SAR 17.1 million in 2022G due to an increase in the number of employees (+7) and an increase in salaries.

Direct Labor

Direct labor cost decreased from SAR 7.0 million in 2020G to SAR 5.6 million in 2021G due to:

1. Outsourcing temporary hired workers in 2020G is linked to increasing the production capacity of sterilizer products, and
2. Reclassifying the temporary labor cost, which amounted to SAR 1.2 million Saudi riyals, from direct labor to indirect labor in 2021G.

Excluding this, the cost increased from SAR 3.0 million to SAR 4.2 million driven by an increase in the number of employees (+6) and an increase in salaries.

Direct labor costs increased from SAR 5.6 million in 2021G to SAR 7.3 million in 2022G due to:

1. High number of employees (+7), and
2. Increase salaries, and
3. Reclassifying the temporary labor cost, which amounted to SAR 1.2 million, from direct labor to indirect labor in 2021G.

Depreciation

Depreciation expense was associated with operating assets such as buildings and improvements to leasehold properties, machinery, laboratory equipment, furniture, office equipment, and computer equipment.

Consumption expenses stabilized at approximately SAR 4 million in the period between 2020G and 2022G.

Amortization

Amortization expenses were related to the laboratory management system and resource planning programs, and there were no major changes in them during the period between 2020G and 2022G.

Cost of Other Manufactured Goods

Other manufactured goods cost includes manufacturing supplies and services, other costs (shipping, customs, and insurance costs), construction and other maintenance expenses, utility expenses, and travel and transportation expenses.

In 2022G, manufacturing supplies and services accounted for approximately (36%) of the total cost of other manufactured goods, other costs (shipping, customs, and insurance costs) (18%), construction and other maintenance expenses (14%), and rental expenses (11%) %, utility expenses (9%), and travel and transportation expenses (4%).

The cost of other manufactured goods decreased from SAR 23.1 million in 2020G to SAR 12.8 million in 2021G due to:

1. The decrease in other costs (shipping, customs, and insurance costs) amounted to SAR 10.7 million, as in 2020G, the group did not allocate the shipping cost to the purchase order, while starting in 2021G, the group began allocating the shipping cost to the purchase order and recording the shipping cost within materials consumption, primary and packaging materials.

- A decrease in manufacturing supplies and services by SAR 1.2 million due to a decrease in the production of sterilizer products (EZ Clean) in 2021G after the easing of Corona pandemic restrictions.

The cost of other manufactured goods increased to SAR 15.7 million in 2022G, mainly due to:

- Manufacturing supplies and services increased by SAR 2.4 million primarily driven by increased production capacity of the cream production line.
- Travel and transportation expenses increased by SAR 0.4 million after lifting travel restrictions that were imposed due to the Corona pandemic.

6-2-1-3 Selling and distribution expenses

Table No (130): Selling and distribution expenses for the fiscal years ended 31 December 2020G, 2021G and 2022G

(SAR)	Fiscal year 2020G (Audited)	Fiscal year 2021G (Audited)	Fiscal year 2022G (Audited)	Annual Change 2020 2021G	Annual change 2021 2022G	CAGR 2020G 2022G
Salaries and other related benefits	23,349,398	23,579,916	25,675,782	1.0%	8.9%	4.9%
Marketing and advertising expenses	15,571,586	17,469,603	19,294,395	12.2%	10.4%	11.3%
Housing and catering expenses	5,574,153	6,153,969	6,735,273	10.4%	9.4%	9.9%
Shipping	4,804,081	3,640,278	5,373,541	(24.2%)	47.6%	5.8%
Transportation allowance for employees	2,631,305	2,915,731	3,146,262	10.8%	7.9%	9.3%
Travel expenses	1,243,920	1,590,093	1,776,892	27.8%	11.7%	19.5%
Expenses of the General Organization for Social Insurance for employees	798,937	1,318,671	1,492,474	65.1%	13.2%	36.7%
Medical insurance for employees	1,459,130	1,409,689	1,277,975	(3.4%)	(9.3%)	(6.4%)
Government and legal fees	1,176,932	791,095	1,197,650	(32.8%)	51.4%	0.9%
Employee leave expenses	636,805	726,537	970,986	14.1%	33.6%	23.5%
Visa and residency expenses for employees	1,112,303	915,887	956,834	(17.7%)	4.5%	(7.3%)
Rent expenses	996,798	918,141	861,647	(7.9%)	(6.2%)	(7.0%)
Depreciation	305,686	281,039	670,166	(8.1%)	138.5%	48.1%
Communications expenses	48,745	24,267	480,163	(50.2%)	1878.7%	213.9%
Automotive expenses	342,943	352,378	324,708	2.8%	(7.9%)	(2.7%)
Repair and maintenance	173,324	173,924	185,135	0.3%	6.4%	3.4%
Total selling and distribution expenses	60,226,046	62,261,218	70,419,883	3.4%	13.1%	8.1%
	As a percentage of the total			Percentage Point		
Salaries and other related benefits	38.8%	37.9%	36.5%	(0.9)	(1.4)	(2.3)
Marketing and advertising expenses	25.9%	28.1%	27.4%	2.2	(0.7)	1.5
Housing and catering expenses	9.3%	9.9%	9.6%	0.6	(0.3)	0.3
Shipping	8.0%	5.8%	7.6%	(2.1)	1.8	(0.3)
Transportation allowance for employees	4.4%	4.7%	4.5%	0.3	(0.2)	0.1
Travel expenses	2.1%	2.6%	2.5%	0.5	(0.0)	0.5

(SAR)	Fiscal year 2020G (Audited)	Fiscal year 2021G (Audited)	Fiscal year 2022G (Audited)	Annual Change 2020 2021G	Annual change 2021 2022G	CAGR 2020G 2022G
Expenses of the General Organization for Social Insurance for employees	1.3%	2.1%	2.1%	0.8	0.0	0.8
Medical insurance for employees	2.4%	2.3%	1.8%	(0.2)	(0.4)	(0.6)
Government and legal fees	2.0%	1.3%	1.7%	(0.7)	0.4	(0.3)
Employee leave expenses	1.1%	1.2%	1.4%	0.1	0.2	0.3
Visa and residency expenses for employees	1.8%	1.5%	1.4%	(0.4)	(0.1)	(0.5)
Rent expenses	1.7%	1.5%	1.2%	(0.2)	(0.3)	(0.4)
Depreciation	0.5%	0.5%	1.0%	(0.1)	0.5	0.4
Communications expenses	0.1%	0.0%	0.7%	(0.0)	0.6	0.6
Automotive expenses	0.6%	0.6%	0.5%	(0.0)	(0.1)	(0.1)
Repair and maintenance	0.3%	0.3%	0.3%	(0.0)	(0.0)	(0.0)

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022G.

Salaries and Other Related Benefits

It mainly includes salaries (about 75% of total costs of salaries and other related benefits during the period between 2020G and 2022GG), incentives (17%) and other employee benefits.

The cost of the year 2020G was exceptionally high due to employee incentives (SAR 5.1 million in 2020G compared to SAR 3.5 million in the years 2020G and 2021G). This decrease in incentives in 2021G was offset by an increase in the cost of employees due to the increase in the number of employees in 2021G compared to the year 2020G (+13 employees) in addition to a salary increase in 2021G.

The increase in salaries and other related benefits costs in 2022G by 8.9% is due to the hiring of 9 new employees, including 2 who were appointed to executive positions with relatively higher salaries (Executive Vice President of Commercial Sales and Director of Business Development), in addition to an increase in salaries.

Marketing and Advertising Expenses

Marketing and advertising expenses mainly relate to advertising and promotion expenses related to scientific, promotional and advertising activities (accounting for 48% of total marketing and advertising expenses in 2022G), which include conferences and seminars held for healthcare practitioners (scientific), promotional activities for launching new products (promotion) and general medical campaigns. The balance also includes expenses for selling activities (20%), which relate to renting shelves in pharmacies to increase product visibility and marketing product samples (10%), under which the Company provides samples to doctors and pharmacies.

Marketing and advertising expenses increased from SAR 15.6 million in 2020G to SAR 17.5 million in 2021G, mainly due to the resumption of normal business after the end of the Corona pandemic, as the Company was able to launch more conferences during the period (SAR + 1.4 million) in addition to the Company's focus on promotional activities (SAR +0.3 million).

Marketing and advertising expenses increased to SAR 19.3 million in 2022G, mainly due to the launch of new buy-one-get-one-free promotions (SAR 1.1 million).

Housing and Catering Expenses

The employee is entitled to a housing allowance as part of the salary package. Housing and catering expenses have increased due to the increase in the number of employees (+13) in 2021G and (+9) in 2022G.

Shipping

Shipping expenses mainly include shipping fees incurred by the Company during its dealings with distributors related to government and export sales.

Shipping expenses decreased from SAR 4.8 million in 2020G to SAR 3.6 million in 2021G due to the decrease in sales to government sector customers.

Shipping expenses increased in 2022G to SAR 5.4 million, after an increase in sales to government sector customers.

Transportation Allowance for Employees

The employee is entitled to a relocation allowance as part of the salary package. Transportation allowance expenses increased with the increase in the number of employees (+13) in 2021G and (+9) in 2022G.

Travel expenses

Travel expenses relate to sales team travel expenses to visit customers and attend seminars.

Travel expenses increased from SAR 1.2 million in 2020G to SAR 1.6 million in 2021G due to the easing of travel restrictions after the end of the Corona pandemic.

Travel expenses increased to SAR 1.8 million in 2022G due to the intensification of travel by the sales team to increase the Company's presence in the markets and its participation in international seminars.

Expenses of the General Organization for Social Insurance for Employees

The employee's social insurance is calculated as a percentage of the basic salary and is paid upon the end of the employee's services.

The cost in 2020G was relatively low due to government support for Saudi citizens under the SANID Plan (from 20 April to 20 September) during the Corona pandemic.

During the years 2021G and 2022G, the General Organization for Social Insurance's expenses for employees witnessed an increase with an increase in the number of employees (+13) and (+9) respectively.

Medical Insurance for Employees

Medical insurance includes employees and their families. Medical insurance expenses for employees in the period between 2020G and 2022G recorded relatively similar amounts.

Government and Legal Fees

Legal and government fees mainly relate to the cost of registration for export business (accounting for 28% of total government and legal fees in 2022G), fines for late government deliveries ranging from 2% to 3% of the invoice value (26%), and tender fees (21%).

Legal and government fees decreased from SAR 1.2 million in 2020G to SAR 0.8 million in 2021G as a result of a decrease in license registration fees for the Jeddah and Dammam branches (SAR 0.2 million), a decrease in tender fees (SAR 0.1 million) and a decrease in late governmental delivery fines (SAR 0.1 million).

Government and legal fees increased to SAR 1.2 million in 2022G, mainly due to an increase in the cost of registration for export business (SAR 0.3 million).

Employee Leave Expenses

Employee leave expense relates to unused leave balance, and there is no significant change in 2020G and 2021G.

The increase in employee leave expenses in 2022G (SAR 0.3 million) is mainly due to payments to employees whose contract with the Company ended during the year.

Visa and Residency Expenses for Employees

Visa and residency expenses for employees decreased between 2020G and 2022G after the increase in the Saudization rate, which led to a decrease in visa requirements and expenses.

Rent Expenses

Rent expenses between 2020G and 2022G recorded relatively similar amounts.

Depreciation

Depreciation expenses were related to operating assets such as the new warehouse «Avalon Warehouse (4)», transportation vehicles and computers.

Depreciation increased from SAR 0.3 million in the years 2020G and 2021G to SAR 0.7 million in 2022G due to the consumption expenses of the Company's main warehouse, «Avalon Warehouse (4)», which was built in the city of Riyadh.

Communications Expenses

Communications expenses increased from SAR 48.7 thousand in 2020G and 24.3 thousand in 2021G to SAR 480.2 thousand after the Company participated in the Saudi Food and Drug Authority's program to trace products in accordance with what was stipulated in the new regulations of the Food and Drug Authority, which was issued in 2022G (annual subscription value reached SAR 0.5 million).

Automotive expenses

Automotive expenses mainly represent forklift maintenance expenses in the Company's warehouses (representing 45% of total automobile expenses in 2022G) and vehicle insurance expenses (26%).

Automotive expenses between 2020G and 2022G recorded relatively similar amounts.

Repair and Maintenance

Repair and maintenance expenses mainly relate to building maintenance and improvement expenses, and repair and maintenance expenses in the period between 2020G and 2022G recorded relatively similar amounts.

6-2-1-4 General and administrative expenses

Table No (131): General and administrative expenses for the fiscal years ending on December 31, 2020, 2021, and 2022

(SAR)	Fiscal year 2020G (Audited)	Fiscal year 2021G (Audited)	Fiscal year 2022G (Audited)	Annual Change 2020 2021G	Annual change 2021 2022G	CAGR 2020G 2022G
Salaries and other related benefits	15,295,399	14,665,709	15,246,133	(4.1%)	4.0%	(0.2%)
Amortization	2,045,087	2,854,160	3,761,849	39.6%	31.8%	35.6%
Housing and catering expenses	2,694,265	3,072,739	3,470,361	14.0%	12.9%	13.5%
Communications expenses	3,171,445	3,131,316	2,950,338	(1.3%)	(5.8%)	(3.5%)
Professional fees	1,334,059	1,512,034	2,398,508	13.3%	58.6%	34.1%
Depreciation	2,252,485	2,214,926	2,182,731	(1.7%)	(1.5%)	(1.6%)
Government and legal fees	306,052	1,586,258	1,665,470	418.3%	5.0%	133.3%
Fees on letter of guarantee/ credit	238,750	680,938	1,384,252	185.2%	103.3%	140.8%
Board remuneration	-	-	1,150,000	N/A	N/A	N/A

(SAR)	Fiscal year 2020G (Audited)	Fiscal year 2021G (Audited)	Fiscal year 2022G (Audited)	Annual Change 2020 2021G	Annual change 2021 2022G	CAGR 2020G 2022G
Expenses of the General Organization for Social Insurance for employees	644,688	844,124	1,117,739	30.9%	32.4%	31.7%
Consumables expenses	761,470	720,068	1,024,550	(5.4%)	42.3%	16.0%
Transportation allowance for employees	751,569	845,611	1,001,377	12.5%	18.4%	15.4%
Medical insurance for employees	754,705	778,170	878,654	3.1%	12.9%	7.9%
Travel expenses	74,317	396,184	848,599	433.1%	114.2%	237.9%
Repair and maintenance	792,851	647,290	842,261	(18.4%)	30.1%	3.1%
Banking charges	1,484,890	1,077,303	746,259	(27.4%)	(30.7%)	(29.1%)
Outsourcing expenses	692,766	569,193	562,335	(17.8%)	(1.2%)	(9.9%)
Electricity	619,300	647,974	480,709	4.6%	(25.8%)	(11.9%)
Employee leave expenses	134,931	195,360	478,072	44.8%	144.7%	88.2%
Rent expenses	138,333	168,584	399,776	21.9%	137.1%	70.0%
Visas and employee residency	421,549	486,208	390,435	15.3%	(19.7%)	(3.8%)
Stationery and publications	173,891	261,793	235,781	50.6%	(9.9%)	16.4%
Other	35,048	202,137	188,552	476.7%	(6.7%)	131.9%
Total general and administrative expenses	34,817,850	37,558,079	43,404,741	7.9%	15.6%	11.7%
	As a percentage of the total			Percentage Point		
Salaries and other related benefits	43.9%	39.0%	35.1%	(4.9)	(3.9)	(8.8)
Amortization	5.9%	7.6%	8.7%	1.7	1.1	2.8
Housing and catering expenses	7.7%	8.2%	8.0%	0.4	(0.2)	0.3
Communications expenses	9.1%	8.3%	6.8%	(0.8)	(1.5)	(2.3)
Professional fees	3.8%	4.0%	5.5%	0.2	1.5	1.7
Depreciation	6.5%	5.9%	5.0%	(0.6)	(0.9)	(1.4)
Government and legal fees	0.9%	4.2%	3.8%	3.3	(0.4)	3.0
Fees on letter of guarantee/ credit	0.7%	1.8%	3.2%	1.1	1.4	2.5
Board remuneration	0.0%	0.0%	2.6%	0.0	2.6	2.6
Expenses of the General Organization for Social Insurance for employees	1.9%	2.2%	2.6%	0.4	0.3	0.7
Consumables expenses	2.2%	1.9%	2.4%	(0.3)	0.4	0.2
Transportation allowance for employees	2.2%	2.3%	2.3%	0.1	0.1	0.1
Medical insurance for employees	2.2%	2.1%	2.0%	(0.1)	(0.0)	(0.1)
Travel expenses	0.2%	1.1%	2.0%	0.8	0.9	1.7
Repair and maintenance	2.3%	1.7%	1.9%	(0.6)	0.2	(0.3)
Bank charges	4.3%	2.9%	1.7%	(1.4)	(1.1)	(2.5)
Outsourcing expenses	2.0%	1.5%	1.3%	(0.5)	(0.2)	(0.7)

(SAR)	Fiscal year 2020G (Audited)	Fiscal year 2021G (Audited)	Fiscal year 2022G (Audited)	Annual Change 2020 2021G	Annual change 2021 2022G	CAGR 2020G 2022G
Electricity	1.8%	1.7%	1.1%	(0.1)	(0.6)	(0.7)
Employee leave expenses	0.4%	0.5%	1.1%	0.1	0.6	0.7
Rent expenses	0.4%	0.4%	0.9%	0.1	0.5	0.5
Visas and employee residency	1.2%	1.3%	0.9%	0.1	(0.4)	(0.3)
Stationery and publications	0.5%	0.7%	0.5%	0.2	(0.2)	0.0
Others	0.1%	0.5%	0.4%	0.4	(0.1)	0.3

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Salaries and Other Related Benefits

Salaries and other related benefits decreased from SAR 15.3 million in 2020G to SAR 14.7 million in 2021G due to:

1. The number of employees decreased (-6).
2. Not achieving the sales target in 2021G, unlike 2020G, as the Company witnessed exceptional sales due to sterilizer products (SAR -2.8 million), and
3. The Group obtained partial payment of salaries (SAR 1.2 million) for Saudi employees under the Sanid program (from April 2020G to September 2020G), and

This was offset by the increase in the cost of training (SAR + 0.5 million) in 2021G and the increase in salaries.

Salaries and other related benefits increased from SAR 14.7 million in 2021G to SAR 15.2 million in 2022G. This is due to the increase in the number of employees (+9) and the increase in salaries.

Amortization

This expense relates to the amortization of registered software, licenses and development projects, and the Group capitalizes internal costs (staff costs and consumables) and certain other expenses (regulatory fees) incurred in relation to registered developed products (under IAS 38).

The amortization expense increased from SAR 2.0 million in 2020G to SAR 2.8 million in 2021G and to SAR 3.8 million in 2022GG due to the increase in the capitalized cost of research and development.

Housing and Catering Expenses

The employee is entitled to a housing allowance as part of the salary package, and housing and catering expenses have increased in line with the increase in salaries in 2021G and the increase in the number of employees in 2022G.

Communications Expenses

Communications expenses included subscription fees for the integrated SAP ERP management software used by the Company (50% of total communications expenses in 2022G) and software subscriptions (27%), among others.

Communications expenses decreased from SAR 3.2 million in 2020G to SAR 3.1 million and SAR 3.0 million in 2021G and 2022G, respectively, primarily due to a decrease in SAP ERP subscription fees (SAR 0.4 million), partially offset by an increase in subscription fees for other programs (SAR 0.2 million). In 2021G, the Group changed its method of paying SAP ERP subscription fees from a fixed fee to a non-fixed fee based on the use of the system, which resulted in fluctuations in the subscription fee expense. On the other hand, subscription fees increased due to the installation of the new PI-Intelligence system for testing product patents.

Professional Fees

The professional fees relate primarily to statutory and internal auditors, among other consultant fees.

Professional fees increased from SAR 1.3 million in 2020G to SAR 1.5 million in 2021G, mainly due to additional expenses related to internal audit (SAR 0.4 million), which increased in line with the increase in operations that need to be reviewed.

Professional fees increased to SAR 2.4 million in 2022GG, primarily related to costs associated with the IPO (SAR 0.7 million) in 2022GG. In addition to expenses related to the consulting offices that were appointed to prepare the financial statements and evaluate Noha Consultancy Company and Emulsion Cosmetics Limited (SAR 0.2 million) and other external audit services (SAR 0.1 million) in 2021G (see Section No. (6-2-2-1) «**Non-current assets**» of this Prospectus).

Depreciation

Depreciation expenses were associated with fixed assets such as the headquarters building, computers and cars related to the general and administrative department.

Depreciation was relatively stable during the period between 2020G and 2022G, at SAR 2.2 million.

Government and Legal Fees

Government and legal fees mainly relate to fees for renewing and registering products with the Food and Drug Authority, including in export markets (68% of total government and legal fees in 2022G), as well as warehouse renewal licenses (21%).

Government and legal fees increased from SAR 306.1 thousand in 2020G to SAR 1.6 million in 2021G also due to the increase in fees for registering products in export markets and the timing of their registration, in addition to the increase in fees for renewing warehouse licenses required every 5 years by the General Authority for Food and Drug.

Government and legal fees increased to SAR 1.7 million in 2022G, mainly due to an increase in fees for renewing the registration of Saudi Food and Drug General Authority products (SAR 0.4 million), offset by a decrease in warehouse renewal licenses (SAR 0.3 million).

Fees on letters of guarantee/credit

Fees on letters of guarantee/credit increased from SAR 238.8 thousand in 2020G to SAR 680.9 thousand in 2021G due to their reclassification from bank fees expenses.

Fees on letters of guarantee/credit increased to SAR 1.4 million in 2022G in line with the increase in the use of letters of credit during the period due to the increase in purchases.

Board Remuneration

In April 2022G, the group's shareholders changed the Company's legal status from a limited liability company to a closed Saudi joint stock company in preparation for the public offering. Accordingly, the group must pay and compensate members of the Board of Directors and the Audit Committee. In the year 2022G, the General Assembly voted on the decision to pay the bonuses, which amounted to SAR 1.2 million.

Expenses of the General Organization for Social Insurance for Employees

Employee social insurance is calculated as a percentage of employees' basic salary and housing allowance.

The cost in 2020G was relatively low due to government support for Saudi citizens under the SANID Plan (from April 2020G to September 2020G) during the Corona pandemic, in addition to the increase in cost being in line with the increase in salaries in 2021G, and the increase in salaries and number of employees in 2022G.

Consumables Expenses

Consumables expenses mainly relate to food expenses for workers (46% of total consumables expenses in 2022G) in addition to hospitality and entertainment expenses (25%).

Consumables expenses increased from SAR 761.5 thousand in 2020G to SAR 1.0 million in 2022G due to the increase in the total number of employees.

Transportation Allowance for employees

The employee is entitled to a transportation allowance as part of the salary package, and transportation allowance expenses have increased in line with the increase in salaries in 2021G and the increase in salaries and number of employees in 2022G.

Medical insurance for employees

Medical insurance for employees stabilized at SAR 0.8 million in the period between 2020G and 2021G and increased to SAR 0.9 million in 2022G.

Travel Expenses

Travel expenses increased from SAR 74.3 thousand in 2020G to SAR 396.2 thousand and 848.6 thousand in 2021G and 2022G, respectively, due to the increase in travel in addition to the increase in the cost of hotels and airline tickets in the years 2021G and 2022G.

Repair and Maintenance

Repair and maintenance expenses are mainly related to the maintenance and improvements of the headquarters and buildings (36% of the total repair and maintenance expenses in 2022G) in addition to building and inventory insurance expenses (33%), and they remained partially stable throughout the period between the years 2020G, 2021G, and 2022G.

Bank Expenses

Banking expenses decreased from SAR 1.5 million in 2020G to SAR 1.1 million in 2021G due to the reclassification to fees on letters of guarantee/credit of SAR 0.4 million.

Bank expenses decreased to SAR 746.3 thousand in 2022G, mainly due to lower transfer fees.

Outsourcing expenses

Outsourcing expenses mainly relate to security guard expenses, and remained partially stable throughout the period 2020G, 2021G and 2022GG.

Electricity

Electricity expenses settled at SAR 634 thousand between 2020G and 2021G.

Employee Leave Expenses

Employee leave expense relates to unused leave balance.

Employee leave expenses between 2020G and 2021G recorded relatively similar amounts.

The increase in 2022G (SAR +0.3 million) is mainly due to what was disbursed to employees who left the group during the year.

Rent Expenses

Rent expenses between 2020G and 2021G recorded relatively similar amounts. Rent expenses increased to SAR 400.0 thousand in 2022GG, mainly due to leasing new offices in Jeddah and Dubai.

Visas and Residence Permits for Employees

Visa and residency expenses for employees in the period between 2020G and 2022G recorded relatively similar amounts.

Stationery and Publications

Stationery and publications expenses between 2020G and 2022G recorded relatively similar amounts.

Other

Other expenses relate to miscellaneous expenses (92% of total other expenses in 2022G) and water expenses (8%).

6-2-1-5 Impairment loss on trade receivables

Table No (132): Impairment loss on trade receivables for the fiscal years ending December 31, 2020, 2021, and 2022

(SAR)	Fiscal year 2020G (Audited)	Fiscal year 2021G (Audited)	Fiscal year 2022G (Audited)	Annual Change 2021 2022G	Annual change 2021 2022G	CAGR 2020G 2022G
Provision for the year	2,000,000	-	130,000	N/A	N/A	N/A
Total impairment loss on trade receivables	2,000,000	-	130,000	N/A	N/A	N/A

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Impairment loss on trade receivables represents the expense charged to doubtful debts based on expected credit losses.

Impairment losses on trade receivables amounted to SAR 2.0 million in 2020G, and no additional expense was recorded in 2021G, and SAR 130.0 thousand were recorded in 2022G.

6-2-1-6 Other Revenues/(Expenses)

Table No (133): Other revenues/(expenses) for the fiscal years ending on December 31, 2020, 2021, and 2022

(SAR)	Fiscal year 2020G (Audited)	Fiscal year 2021G (Audited)	Fiscal year 2022G (Audited)	Annual Change 2020 2021G	Annual change 2021 2022G	CAGR 2020G 2022G
Loss on disposal of equity investments	-	(2,756,457)	-	N/A	(100.00%)	N/A
Other revenues	(46,948)	138,271	168,366	(394.5%)	21.8%	N/A
Total	(46,948)	(2,618,186)	168,366	5476.8%	(106.4%)	N/A

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Loss on Disposal of Equity Investments

This item represents the loss of income from the exclusion of investment in shares in Columbia Care International Holdco, amounting to SAR 2.8 million in 2021G (nil in 2020G and 2022G), and this investment, which represents 5% of the shares of Columbia Care International Holdco Company, was excluded, as Avalon obtained Pharma in exchange for 783,805 shares (about 0.02% of the total number of shares) in the US company Columbia Care Inc., a public joint stock company (listed on the NEO stock market in Canada) and whose headquarters are in the US state of Delaware.

Other Revenues

Other revenues include:

- The actual profit or loss from foreign currencies amounted to SAR -0.3 million in 2020G, SAR +0.2 million in 2021G, and SAR +0.3 million in 2022G. The Group is primarily exposed to changes in exchange rates on its purchases from Europe as the Group's sales are either in SAR for its domestic sales or in US Dollars for its export sales, and

2. Abnormal loss due to the percentage of spoilage in production exceeding 5% of total production, and
3. Other revenues related to the sale of operational waste and furniture include empty drums (drums) worth SAR 0.5 million and the sale of air conditioners and old warehouse furniture for SAR 0.1 million in 2022G.

6-2-1-7 Financing Costs

Table No (134): Finance costs for the fiscal years ended 31 December 2020G, 2021G and 2022G

(SAR)	Fiscal year 2020G (Audited)	Fiscal year 2021G (Audited)	Fiscal year 2022G (Audited)	Annual Change 2020 2021G	Annual change 2021 2022G	CAGR 2020G 2022G
Interest costs on loans	956,429	1,184,955	4,734,120	23.9%	299.5%	122.5%
Net benefit cost: Defined benefit obligations to employees	517,898	495,884	747,373	(4.3%)	50.7%	20.1%
Total financing costs	1,474,327	1,680,839	5,481,493	14.0%	226.1%	92.8%

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Financing costs mainly included financing fees for credit facilities, which consist of short-term loans and working capital facilities (about 74% of the total financing costs in the period between 2020G and 2022G), in addition to the interest cost of defined benefit obligations for employees, which results from the actuarial study. (About 26% of the total financing costs during the year 2022G).

Financing fees on credit facilities increased from SAR1.0 million in 2020G and SAR 1.2 million in 2021G to SAR 4.7 million in 2022G after increasing the SIBOR rate from about 1% to about 3% in fiscal year 2022G.

The interest cost of employee defined benefit obligations resulting from the actuarial study stabilized at SAR 0.5 million in fiscal years 2020G and 2021G, then increased slightly to SAR 0.7 million in fiscal year 2022G.

6-2-1-8 Zakat Expense

Table No (135): Zakat expense for the fiscal years ending on December 31, 2020G, 2021G, and 2022G

(SAR)	Fiscal year 2020G (Audited)	Fiscal year 2021G (Audited)	Fiscal year 2022G (Audited)	Annual Change 2020 2021G	Annual change 2021 2022G	CAGR 2020G 2022G
Equity at the beginning of the year	179,787,126	215,245,853	245,181,472	19.7%	13.9%	16.8%
Adjusted net profit	83,865,108	77,158,439	66,293,516	(8.0%)	(14.1%)	(11.1%)
Additions	39,818,666	35,613,494	58,028,093	(10.6%)	62.9%	20.7%
Deductions	(124,141,819)	(140,506,822)	(148,638,048)	13.2%	5.8%	9.4%
Total (Zakat Base)	179,329,081	187,510,964	220,865,033	4.6%	17.8%	11.0%
Zakat at the rate of 2.5% (adjusted net profit or Zakat base, whichever is higher)	4,622,536	4,687,774	5,521,626	1.4%	17.8%	9.3%
Excess from the previous year's provision	-	(610,478)	-	N/A	(100.0%)	N/A
Additional provision during the year	377,464	99,514	49,691	(73.6%)	(50.1%)	(63.7%)
Zakat expense during the year	5,000,000	4,176,810	5,571,317	(16.5%)	33.4%	5.6%

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Zakat provision is calculated in accordance with the regulations of the Zakat, Tax and Customs Authority in the Kingdom of Saudi Arabia on an accrual basis.

Zakat expense decreased from SAR 5.0 million in 2020G to SAR 4.2 million in 2021G, mainly due to the reversal of the previous year's accrual surplus of SAR 0.6 million.

Zakat expense increased to SAR 5.6 million in 2022G, driven by the growth of the zakat base after increased activity.

6-2-2 Statement of financial position as of 31 December 2020G, 2021G, and 2022G

Table No (136): Statement of financial position as at 31 December 2020G, 2021G and 2022G

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Assets			
Non-current assets			
Property, machinery and equipment	94,723,716	103,454,701	105,643,165
Intangible assets	27,993,119	34,291,807	41,487,454
Investments in equity	22,717,190	9,815,578	3,605,451
Total non-current assets	145,434,025	147,562,086	150,736,070
Current assets			
Cash and cash equivalents	15,923,866	19,035,572	23,790,842
Trade receivables	109,864,378	164,366,014	152,372,330
Advance payments and other current assets	16,898,732	11,512,816	16,137,519
Inventory	82,511,729	74,451,275	100,214,552
Total current assets	225,198,705	269,365,677	292,515,243
Total assets	370,632,730	416,927,763	443,251,313
Equity and liabilities			
Equity			
Capital	60,000,000	60,000,000	200,000,000
Statutory reserve	19,308,236	19,308,236	25,253,411
Other reserve	(16,987)	(14,447,828)	(24,359,591)
Retained earnings	173,137,616	202,220,693	79,379,813
Total equity	252,428,865	267,081,101	280,273,633
Liabilities			
Non-current liabilities			
Loans and advances	20,598,291	15,844,840	9,506,904
Employee benefits	12,841,022	16,611,346	21,079,851
Total non-current liabilities	33,439,313	32,456,186	30,586,755
Current liabilities			
Short term loans	42,052,950	66,436,956	69,130,087
Loans and advances – current portion	-	4,753,451	6,337,936
Trade payables	26,202,827	32,732,211	37,954,257
Accruals and other current liabilities	11,307,130	8,320,800	13,282,053
Due to shareholders	-	356,282	-
Due to related parties	18,825	-	100,000
Zakat due	5,182,820	4,790,776	5,586,592
Total current liabilities	84,764,552	117,390,476	132,390,925
Total liabilities	118,203,865	149,846,662	162,977,680
Total equity and liabilities	370,632,730	416,927,763	443,251,313

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

6-2-2-1 Non-current assets

Total No (137): Non-current assets as at 31 December 2020G, 2021G and 2022G

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Property, machinery and equipment	94,723,716	103,454,701	105,643,165
Intangible assets	27,993,119	34,291,807	41,487,454
Investments in equity	22,717,190	9,815,578	3,605,451
Total non-current assets	145,434,025	147,562,086	150,736,070

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Property Machinery and Equipment

Table No (138): Property, Plant and equipment as of December 31, 2020, 2021 and 2022

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Lands	10,192,286	10,192,286	10,192,286
Buildings and improvements to leasehold properties	39,977,036	37,469,219	66,790,088
Plant	11,454,476	3,498,016	3,098,244
Furniture and office equipment	1,032,810	1,175,518	1,308,531
Motor Vehicles	377,998	390,913	2,324,673
Computers (Hardware)	948,122	1,138,544	1,319,555
Instruments	3,796,957	3,586,007	3,494,500
Assets under construction	26,944,031	46,004,198	17,115,288
Net book value	94,723,716	103,454,701	105,643,165

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Table No. (139): Additions to property, plant, and equipment as of December 31, 2020, 2021, and 2022

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Buildings and improvements to leasehold properties	349,830	47,117	487,517
Plant	8,542,296	1,528,679	-
Furniture and office equipment	415,343	580,943	334,829
Motor Vehicles	133,000	247,578	22,044
Computers (Hardware)	265,406	658,474	5,410
Instruments	595,532	682,019	33,799
Assets under construction	22,697,097	11,687,967	8,474,852
Net book value	32,998,504	15,432,777	9,358,451

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Property, plant and equipment in the Group includes: buildings and improvements to leasehold properties, machinery, office furniture and equipment, computers, instruments and assets under construction.

Buildings and Improvements to Leasehold Properties

Buildings and improvements to leasehold properties constitute the largest portion of the net book value of property, plant and equipment at 63.2% as of 31 December 2022G.

The buildings and improvements to the leasehold properties consist primarily of 1) the one-story corporate headquarters, 2) the Avalon Factory (1), 3) the Avalon Factory (2) which currently includes a research and development facility, and 4) the specialized Avalon Factory (3). Producing pharmaceutical disinfectants (disinfectants and nasal spray) and cosmetic disinfectants (mouthwash); 5) The new Avalon (4) warehouse, which the group uses as a main warehouse for storing raw materials, packaging materials, and finished goods.

Previously, the group had rented 15 warehouses for storage, and during August 2022G, the group moved to using the Avalon warehouse (4) and maintained only 3 rented warehouses in Riyadh, Jeddah and Dammam.

Buildings and improvements to leasehold properties are depreciated over 20 years.

The net book value of buildings and improvements to leasehold properties decreased from SAR 40.0 million as at 31 December 2020G to SAR 37.5 million as at 31 December 2021G, driven mainly by depreciation expense for the period of SAR 2.6 million.

The net book value of buildings and improvements to leased properties increased from SAR 37.5 million as of 31 December 2021G to SAR 66.8 million as of 31 December 2022G. This is due to the reclassification of the value of the new Avalon (4) warehouse from assets under construction during the period, which its net book value reached SAR 29.0 million.

Lands

The net book value of the lands amounted to SAR 10.2 million, representing 9.6% of the net book value of property, plant and equipment as of 31 December 2022G. The lands include 5 plots of more than 22 thousand square meters on which the main center, factories and warehouse of the Company are located.

It is worth noting that there is a title deed for one of the above-mentioned lands, which was mortgaged to the Saudi Investment Bank, and the balance of the debt to the bank has been paid in full and ownership of the land has been transferred to the Company (see Section No. (12-7) «**Properties owned and leased by the Company**» of this Prospectus).

Plant

Plant (Machinery) represents 3.0% of the net book value of property, plant and equipment as of 31 December 2022G.

The net book value of machinery decreased from SAR 11.5 million as of 31 December 2020G to SAR 3.5 million as of 31 December 2021G. This is due to the reclassification of SAR 7.4 million of Avalon Factory (2) machinery to assets under construction, which are machines that were not used before.

This was partially offset by additional maintenance costs capitalized on Avalon Factory (1) equipment amounting to SAR 1.5 million, and depreciation amounting to SAR 2.1 million.

The net book value of the machines decreased from SAR 3.5 million as of 31 December 2021G to SAR 3.1 million as of 31 December 2022G. This is due to depreciation amounting to SAR 1.6 million, offset by the reclassification of Avalon Machines (2) from assets under construction at an amount of SAR 1.5 million.

The machines are depreciated over 8 years.

Furniture and Office Equipment

Office furniture and equipment constitute 1.2% of the net book value of property, machinery and equipment as of 31 December 2022G.

The net book value of office furniture and equipment increased from SAR 1.0 million as of 31 December 2020G to SAR 1.2 million as of 31 December 2021G. This is due to additions of SAR 580.9 thousand, partially offset by depreciation of SAR 438 thousand.

The net book value of office furniture and equipment increased from SAR 1.2 million as of 31 December 2021G to SAR 1.3 million as of 31 December 2022G. This is due to the purchase of new furniture for Avalon Warehouse (4) worth SAR 334.8 thousand, in addition to returning Classification of office furniture and equipment belonging to Avalon Factory (2), Avalon Factory (3) and Avalon Warehouse (4) from assets under construction with a value of SAR 0.5 million. This was partially offset by depreciation of SAR 384 thousand. Furniture and office equipment are depreciated over 4 years.

Motor Vehicles

Motor vehicles constitute 2.2% of the net book value of property, plant and equipment as of 31 December 2022G, and include 18 vehicles, 14 of which belong to distribution trucks while the remaining vehicles are company cars.

The net book value of cars increased from SAR 378 thousand as of 31 December 2020G to SAR 391 thousand as of 31 December 2021G. This is due to additions worth SAR 247.6 thousand, and this was partially compensated for by depreciation worth SAR 235 thousand.

The net book value of vehicles increased from SAR 391 thousand as of 31 December 2021G to SAR 2.3 million as of 31 December 2022G, and this relates to the value of two forklifts that were reclassified from assets under construction.

Cars are depreciated over 4 years.

Computers (Hardware)

Computers constitute 1.2% of the net book value of property, machinery and equipment as of 31 December 2022G.

The net book value of computers increased from SAR 948.1 thousand as of 31 December 2020G to SAR 1.1 million as of 31 December 2021G. This is due to minor additions that were partially offset by the depreciation of computers during the same year.

The net book value of computers increased from SAR 1.1 million as of 31 December 2021G to SAR 1.3 million as of 31 December 2022G. This is due to minor additions that were partially offset by depreciation of computers during the same year.

Computer equipment is depreciated over 4 years.

Instruments

Instruments constitute 3.3% of the net book value of property, plant and equipment as of 31 December 2022G.

The net book value of the instruments decreased from SAR 3.8 million as of 31 December 2020G to SAR 3.6 million as of 31 December 2021G, due to depreciation, partially offset by minor additions to the instruments.

The net book value of the instruments decreased from SAR 3.6 million as of 31 December 2021G to SAR 3.5 million as of 31 December 2022G, due to depreciation, partially offset by minor additions to the instruments.

Instruments are depreciated over 8 years.

Assets Under Construction

Assets under construction constitute 16.2% of the net book value of property, plant and equipment as of 31 December 2022G.

The net book value of assets under construction increased by approximately SAR 19 million from SAR 26.9 million as of 31 December 2020G to SAR 46.0 million as of 31 December 2021G. This is due to additions during the year of SAR 11.7 million, mainly related to costs. Capitalization related to the improvement of the Avalon Factory (2) and the reclassification of its machinery amounting to SAR 7.4 million to assets under construction, as it has not yet been put into operation.

The net book value of assets under construction decreased by SAR 28.9 million from SAR 46.0 million as at 31 December 2021G to SAR 17.1 million as at 31 December 2022G, primarily due to amounts reclassified to buildings and improvements to leasehold properties (SAR 32.1 million) upon completion of the construction of Avalon Warehouse (4), the value of Avalon Factory Machinery (2) (SAR 1.3 million), the value of two forklifts (SAR 2.4 million), and other assets under construction (SAR 0.6 million). This was offset by additions to assets under construction (SAR 8.5 million) related to Avalon Warehouse (4) improvements (SAR 2.7 million), Avalon Factory (2) improvements (SAR 2.2 million), and Avalon Factory (2) machinery (SAR 0.9 million) and other assets under construction worth SAR 3.1 million.

Other than as stated above, there are no significant fixed assets to be acquired or leased as of the date of this Prospectus.

Intangible Assets

Table No (140): Intangible assets as at 31 December 2020G, 2021G and 2022G

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Software and licenses	6,300,625	5,741,720	5,653,693
Developed products that have been registered	21,636,747	28,550,087	35,833,761
Capital works in progress	55,747	-	-
Total	27,993,119	34,291,807	41,487,454

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Table No (141): Additions to intangible assets as of December 31, 2020, 2021, and 2022

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Software and licenses	105,880	251,589	780,858
Developed products that have been registered	6,468,607	8,993,700	10,250,108
Total	6,574,487	9,245,289	11,030,966

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Intangible assets, which amounted to SAR 41.5 million as of 22 December 2022G, included developed products that were recorded (i.e. R&D expenses of SAR 35.8 million), in addition to software and licenses (SAR 5.7 million). The growth in intangible assets is due to capitalized salaries of the R&D department, inventory consumption and material expenses in connection with the formulation of new products (generic products for which regulatory approvals and technological feasibility have been approved).

Software and Licenses

Software and licenses relate primarily to the Group's SAP ERP systems and software, which constitute 77% of the total software and licenses, and licenses for other products, which constitute 23% of the total. Capitalized software costs include the following:

1. New updates to SAP ERP, which amounted to SAR 0.1 million in fiscal year 2020G;
2. Product licenses and trademark patents, which amounted to SAR 0.3 million in fiscal year 2021G;
3. Additions worth SAR 0.8 million in 2022G, including SAR 0.4 million related to the SAP ERP program.
4. Software and licenses are amortized over 4-10 years.

Developed Products that Have Been Registered

Registered development projects consist of capitalized development expenditures for registered products (products that have received SFDA approval) as well as formulation in progress (R&D costs related to development products and products awaiting SFDA approvals). Capitalized costs include R&D department salaries, inventory depreciation, and materials expenses, among others. Capitalized expenses amounted to SAR 6.5 million, SAR 9.0 million and SAR 10.3 million in 2020G, 2021G and 2022GG, respectively, and are predominantly internal costs. The classification of these costs as development costs is consistent with IAS 38 - Intangible Assets as the Company produces generic pharmaceutical products for which technical feasibility has been determined and regulatory approvals have been obtained.

Developed products that have been registered are amortized over a period of 5 years once the approval of the Saudi Food and Drug General Authority is obtained.

Capital Works In Progress

The Group did not have any capital work in progress as of December 2022G, and the balance of capital work in progress decreased from SAR 55.7 thousand as of 31 December 2020G to nothing as of 31 December 2021G.

Investments in Equity

Table No (142): Investments in equity as of December 31, 2020, 2021, and 2022

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Equity investments:			
Columbia Care Inc	21,485,620	8,417,517	2,207,390
Nuha Consultancy Company	1,090,816	1,090,816	1,090,816
Emulsion Cosmetics Limited	140,754	307,245	307,245
Total	22,717,190	9,815,578	3,605,451

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

The Group has classified the investments shown above as shares at fair value through other comprehensive income as these shares represent investments that the Group intends to hold in the long term for strategic purposes.

Columbia Care Inc Company

On 28 July 2020G, the Group purchased a 5% stake in Columbia Care International Holdco for €5.0 million (equivalent to SAR 21.5 million), which approximates the fair value as of 31 December 2020G.

On 12/03/2021G, the Group entered into an agreement to redeem the share («the Agreement») with the following parties:

1. Columbia Care International Holdco, a Delaware LLC;
2. Columbia Care Inc., a publicly traded company, NSE, Canada;
3. Columbia Care, Inc., a Delaware limited liability company and a wholly-owned subsidiary of Columbia Care, Inc.

Under the agreement, 5% of the shares of Columbia Care International Holdco owned by the Company were exchanged for 783,805 shares of Columbia Care Inc. shares at a value of 7.95 Canadian dollars per share, for a total of 6.2 million Canadian dollars (equivalent to SAR 18.7 million). Consequently, the Group recorded a loss on disposal of Columbia Care International Holdco shares of SAR 2.8 million.

The decline in the market price of Columbia Care Inc.'s shares to C\$3.6 as of 31 December 2021G resulted in a total fair value loss of SAR 10.3 million (loss recorded in other comprehensive income).

As of 31 December 2022G, the market price for Columbia Care Inc. shares was C\$1.02 (US\$0.75) per share, which resulted in a fair value loss of SAR 6.2 million (SAR 10.3 million as of 31 December 2021G).

Noha Consultancy Company

Noha Consultancy Company is a limited liability company under company registration certificate No. (BC1849760) issued by the Companies Registry in the British Virgin Islands on 24/01/1436H (corresponding to 17/11/2014G). The capital of Noha Consultancy Company is (58,824) fifty-eight thousand eight hundred and twenty-four pounds sterling, divided into (58,824) fifty-eight thousand eight hundred and twenty-four ordinary shares with no nominal value. Its headquarters are located in the British Virgin Islands, and its activities are the retail sale of cosmetics and beauty instruments in specialized stores.

During March 2020G, Avalon Cosmetics Limited, an indirect wholly owned subsidiary of the Company, purchased a 15% ownership stake in Noha Consultancy Company for a total consideration of SAR 1.1 million.

As of 31 December 2022G, these investments in equity are and are still recorded at fair value. The fair value of Noha Consultancy Company amounted to SAR 1.1 million, and no change in fair value was recorded between the years 2020G to 2022G.

Emulsion Cosmetics Limited

Emulsion Cosmetics Limited is a limited liability company under Company Registration Certificate No. (10632513) issued by the Companies Register in the United Kingdom on 25/05/1438H (corresponding to 22/02/2017G). The capital of Emulsion Cosmetics Limited is (190,482) one hundred and ninety thousand four hundred and eighty-two British pounds, divided into (190,482) one hundred and ninety thousand four hundred and eighty-two ordinary shares with no nominal value. Its headquarters are located in the United Kingdom, and its activities are the retail sale of cosmetics and beauty instruments in specialized stores.

During March 2020G, Avalon Cosmetics Limited, an indirect wholly owned subsidiary of the Company, purchased a 15% ownership stake in Emulsion Cosmetics Limited for a total consideration of SAR 141 thousand.

On 08/04/2021G and 21/12/2021G, Avalon Cosmetics Limited contributed additional capital amounting to SAR 73,352 and SAR 93,139, respectively, to Emulsion Cosmetics Limited. Therefore, as of 31 December 2021G and 31 December 2022G, investments in Emulsion Cosmetics Limited amounted to SAR 307,245.

As of 31 December 2022G, these investments in equity are still at fair value, and the fair value of Emulsion Cosmetics Limited amounted to SAR 307 thousand, and no change in the fair value was recorded between the years 2021G to 2022G.

6-2-2-2 Current Assets

Table No (143): Current assets as at 31 December 2020G, 2021G and 2022G

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Cash and cash equivalents	15,923,866	19,035,572	23,790,842
Trade receivables	109,864,378	164,366,014	152,372,330
Advance payments and other current assets	16,898,732	11,512,816	16,137,519
Inventory	82,511,729	74,451,275	100,214,552
Total current asset	225,198,705	269,365,677	292,515,243

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Cash and cash equivalents

Table No. (144): Cash and cash equivalents as of December 31, 2020, 2021, and 2022

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Cash in hand	228,500	103,058	168,565
Cash in banks - current accounts	15,695,366	18,932,514	23,622,277
Total	15,923,866	19,035,572	23,790,842

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Cash and cash equivalents amounted to SAR 23.8 million as of 31 December 2022G, and it consists entirely of current accounts in SAR (85% of the total) and in US dollars (15% of the total).

Cash In Hand

Cash on hand represents the cash held in the group's vault.

The value of cash in the fund amounted to SAR 168.6 thousand as of 31 December 2022G. There were no significant changes in cash on hand during the period between 2020G and 2022G.

Cash In Banks – Current Accounts

Cash at banks - current accounts represent the Company's cash in local banks such as Banque Saudi Fransi, Saudi Investment Bank, Arab National Bank, Alinma Bank, National Bank of Saudi Arabia, and others.

Trade Receivables

Table No (145): Trade receivables as at 31 December 2020G, 2021G and 2022G

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Trade receivables	117,767,754	172,269,390	160,405,706
Less: Impairment of trade receivables	(7,903,376)	(7,903,376)	(8,033,376)
Total	109,864,378	164,366,014	152,372,330

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Table No. (146): Movement in the provision for trade receivables as of December 31, 2020, 2021, and 2022

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Opening balance	5,985,345	7,903,376	7,903,376
Allowance for the year	2,000,000	-	130,000
Written off during the year	(81,969)	-	-
Closing balance	7,903,376	7,903,376	8,033,376

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

For financial assets measured at amortized cost (cash and cash equivalents and trade receivables), the fair value approximates the book value.

Trade receivables as of 31 December 2022G consist of receivables due to the Company from retail customers (48% of total trade receivables), government sector customers (48% of total trade receivables), and export customers (4% of total trade receivables).

The value of trade receivables increased from SAR 117.8 million as of 31 December 2020G to SAR172.3 million as of 31 December 2021G. This is due to the delay in collection from Nupco after Nupco started using a new (ERP) system related to payments to suppliers, which led to Delays in paying bills during this period, in addition to delays in collection from retail customers during the Corona pandemic.

The value of trade receivables decreased to SAR 160.4 million as of 31 December 2022G. This is due to the decrease in receivables related to government sector customers by SAR 14 million, of which Nupco contributed SAR 4.5 million after the improvement in collection, in addition to the contribution Other government agencies worth SAR 9.5 million.

Provision for Trade Receivables

The provision for trade receivables was stable during the years 2020G and 2021G, as the value of the provision amounted to SAR 7.9 million.

The value of the provision for trade receivables increased to SAR 8.0 million as of 31 December 2022G. This is due to the addition of an allowance for the year amounting to SAR 130.0 thousand in accordance with the Company's provision policy.

Advance payments and other current assets

Table No (147): Advanced Payments and other current assets as of December 31, 2020, 2021, and 2022

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Advance payments to suppliers	7,124,686	3,020,565	5,175,030
VAT refunded	1,887,947	1,762,630	2,166,351
Prepaid insurance	1,604,318	1,887,158	2,001,052
Accounts receivable to employees	773,609	922,096	1,936,890
Margin deposits on letters of credit and letters of guarantee	2,350,501	1,566,866	1,428,976
Prepaid accommodation fees*	1,013,955	1,084,120	998,680
Rent paid in advance	1,028,262	865,207	584,084
Prepaid subscription fees	828,423	290,377	407,540
other*	287,031	113,797	1,438,916
Total	16,898,732	11,512,816	16,137,519

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

* The figures have been restated as of December 31, 2020G, according to the classification in the audited consolidated financial statements ending on December 31, 2022G.

Payments Made to Suppliers

The balance of advance payments to suppliers decreased from SAR 7.1 million as of 31 December 2020G to SAR 3.0 million as of 31 December 2021G. This is due to a decrease in the amounts of advance payments related to suppliers of capital additions by approximately SAR 2.9 million.

The value of advance payments to suppliers increased to SAR 5.2 million as of 31 December 2022G. This is due to an increase in the amounts of advance payments related to suppliers of capital additions by approximately SAR 1.0 million.

VAT Refunded

The value of the VAT refund amounted to SAR 2.2 million as of 31 December 2022G.

Prepaid Insurance

The value of prepaid insurance increased from SAR 1.6 million as of 31 December 2020G to SAR 1.9 million as of 31 December 2021G and to SAR 2.0 million as of 31 December 2022G. This is due to an increase in insurance coverage due to additions to property and equipment, and an increase in inventory, and the value of inventory, as well as the costs of a business interruption coverage policy.

Accounts Receivable to Employees

The value of receivables to employees increased from SAR 773.6 thousand as of 31 December 2020G to SAR 922.1 thousand as of 31 December 2021G and to SAR 1.9 million as of 31 December 2022G. This is due to the increase in the amounts receivable from the group's employees.

Margin Deposits on Letters of Credit and Letters of Guarantee

Margin on letters of credit and guarantee relates to cash deposited with banks to secure letter of credit and guarantee facilities.

Margin deposits on letters of credit and letters of guarantee decreased from SAR 2.4 million as of 31 December 2020G to SAR 1.6 million as of 31 December 2021G and to SAR 1.4 million as of 31 December 2022G. This is due to the payment and closing of letters of credit accounts.

Residency Fees Paid in Advance

The prepaid residency fees relate to expenses related to the residence of expatriate employees and amounted to SAR 998.7 thousand as of 31 December 2022G. The value of prepaid accommodation fees did not change significantly between the fiscal years ending 31 December 2020G and 2022G.

Rent Paid In Advance

Prepaid rentals relate to various premises leased by the Group. The value of the prepaid rent decreased from SAR 1.0 million as of 31 December 2020G to SAR 865.2 thousand as of 31 December 2021G and to SAR 584.1 thousand as of 31 December 2022G. This is due to the evacuation of 7 warehouses during 2022G due to the transfer of storage operations to the new warehouse. «Avalon Warehouse (4)».

Prepaid Subscription Fees

Prepaid subscription fees relate to subscriptions for programming systems and other electronic programs such as «Microsoft Office 36» and «SAP ERP».

The value of prepaid subscription fees decreased from SAR 828.4 thousand as of 31 December 2020G to SAR 290.4 thousand as of 31 December 2022G. This is due to the fact that the advance payment related to the SAP ERP subscription for the year 2021G was paid in December 2020G instead of December 2021G, as the payment was made in January 2022G.

The value of prepaid subscription fees increased to SAR 407.5 thousand as of 31 December 2022G and relates to software subscriptions, most notably Microsoft Office 365, at a value of SAR 164.1 thousand, and the SAP ERP program, at a value of SAR 139.8 thousand.

Other

Other receivables decreased from SAR 287.0 thousand as of 31 December 2021G to SAR 113.7 thousand as of 31 December 2022G due to the recovery of deposits amounting to SAR 192 thousand from one of the suppliers of packaging products upon receipt.

The increase in other costs of SAR 1.4 million as at 31 December 2022G is due to prepaid costs amounting to SAR 1.3 million, which relate to consultant costs associated with the Company's IPO.

Inventory

Total No (148):: Inventory as of December 31, 2020, 2021, and 2022

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Raw materials	51,348,734	41,611,947	56,753,965
Finished products	24,071,800	24,110,731	36,883,268
Consumables	6,097,074	6,337,115	7,014,263
Spare parts inventory	1,424,984	2,760,314	1,507,428
Goods under manufacturing	322,693	257,191	295,472
Deduct: provision for slow moving inventory	(753,556)	(626,023)	(2,239,844)
Inventory, net	82,511,729	74,451,275	100,214,552

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Raw Materials

Raw materials constitute approximately 55% of the total inventory as of 31 December 2022G, and relate to raw materials received from local and international vendors and active pharmaceutical ingredients used in the production of medicines and cosmetics.

The value of raw materials decreased from SAR 51.3 million as of 31 December 2020G to SAR 41.6 million as of 31 December 2021G. This is due to the decrease in the quantities of «Ethanol 99.9%» and «Ethanol 96%» purchased during the year 2021G. As the group purchased an additional reserve in 2020G to prevent any disruption in production that may result from supply chain problems. In addition, the Company's business witnessed a small demand for disinfectants during the year 2021G compared to the year 2020G.

The value of raw materials increased to SAR 56.8 million as of 31 December 2022G, due to the purchase of additional inventory reserves due to the logistical challenges resulting from the Corona pandemic in 2021G and the war in Ukraine in 2022G.

Finished Products

Finished products relate to products that have been manufactured and are ready for sale, and represented 36% of the total inventory as of 31 December 2022G.

The value of the stock of ready-made products was stable between 2020G and 2021G, but it increased from SAR 24.1 million as of 31 December 2021G to SAR 36.9 million as of 31 December 2022G due to the Company increasing the size of the inventory after issuing a decision by the Saudi Food and Drug Authority requiring. The Company stores ready-made products for a period of at least 6 months.

Consumables

Consumables mainly include face masks worth SAR 5 million as at 31 December 2020G and SAR 4.4 million as at 31 December 2021G and 31 December 2022G.

Spare Parts Inventory

Spare parts inventory includes spare parts and other consumables in stock used during the production process and associated with plant machinery.

The value of the spare parts inventory increased from SAR 1.4 million as of 31 December 2020G to SAR 2.8 million as of 31 December 2021G. This is due to the purchase of a stock of spare parts for machines for the purpose of maintaining them. The value of the spare parts inventory decreased to SAR 1.5 million as of 31 December 2022G due to the use of spare parts for some machines for which the necessary maintenance was performed.

Goods Under Manufacturing

Work-in-progress is mainly related to the semi-finished goods in the production process.

The value of the inventory of goods in progress reached SAR 295.5 thousand as of 31 December 2022G, and it has been similar over the past years.

Provision for Inventory

As of 31 December 2020G, the provision for inventory was calculated based on 1.25% of the total inventory value at the end of the period (excluding packaging materials) after deducting the value of defective goods (based on approvals from the Saudi Food and Drug Authority), and the Company has changed its provision policy. In 2021G, it is calculated on the basis of 1.25% of the stock of raw materials, finished products and consumables at the end of the period after deducting the value of bad goods.

Most of the group's products have a long-term shelf life (2 - 3 years), and management identifies on an almost weekly basis expired and nearing expiry products and inventory (based on reports generated by SAP ERP), which are either based on discussions with production managers Or it was disposed of (after obtaining approval from the Food and Drug Authority).

The value of the inventory provision decreased from SAR 753.6 thousand as of 31 December 2020G to SAR 626.0 thousand as of 31 December 2021G after the change in the calculation method as mentioned previously.

The value of the inventory provision increased to SAR 2.2 million as of 31 December 2022G. This is due to the increase in the provision specified for expired products as of 31 December 2022G, which amounted to SAR 1.4 million.

6-2-2-3 Non-Current Liabilities

Table No (149):: Non-current liabilities as at 31 December 2020G, 2021G and 2022G

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Loans and advances - current portion	20,598,291	15,844,840	9,506,904
Employee benefits	12,841,022	16,611,346	21,079,851
Total non-current liabilities	33,439,313	32,456,186	30,586,755

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Loans and Advances

Table No (150): Outstanding balances as of December 31, 2020, 2021, and 2022

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Current portion	-	4,753,451	6,337,936
Non-current portion	20,598,291	15,844,840	9,506,904
Total	20,598,291	20,598,291	15,844,840

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Table No (151):: Statement of movement in long-term loans as of December 31, 2020, 2021, and 2022

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Opening balance	833,333	20,598,291	20,598,291
Loan proceeds during the year	20,598,291	-	-
Paid during the year	(833,333)	-	(4,753,451)
Closing balance	20,598,291	20,598,291	15,844,840

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

A long-term loan was obtained from Banque Saudi Fransi, secured by personal guarantees provided by the group's shareholders, and the group's head office building, with a book value of SAR 20.5 million.

The long-term loan carries a commission at the agreed commercial rates of SIBOR + 1.75% per annum, payable in thirteen equal quarterly installments starting from September 2022 and repayable in full by April 2025.

The decline in loans is due to the repayment of the current portion amounting to SAR 4.8 million during the year 2022.

Employee Benefits

Table No (152): Employee benefits as of December 31, 2020, 2021, and 2022

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Opening balance	12,232,155	12,847,743	16,611,346
Recognized in the consolidated statement of profit or loss			
Current service cost	1,439,956	1,414,265	2,115,348
Interest cost	517,897	495,884	747,373
Recognized in the consolidated statement of comprehensive income			
Actuarial loss	1,340,804	4,119,191	3,701,639
Settlements during the year	(2,689,790)	(2,265,737)	(2,095,855)
Closing balance	12,841,022	16,611,346	21,079,851

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Table No (153): Key actuarial assumptions used to calculate significant unfunded defined benefit plan liabilities

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Economic assumptions			
Discount rate	3.27%	3.67%	4.50%
Future salary growth/expected rate of salary increase	1.00%	7.36%	5.00%
Employee turnover rates	2.00%	21.79%	18.45%
Demographic assumptions			
Number of Employees	457	504	533
Average age of employees (years)	41,92	36,65	36,44
Average years of previous service	13,33	5,51	5,64
Contractual age	60	60	60

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

The Group operates an approved, unfunded defined benefit plan for end-of-service benefits for its permanent employees in accordance with the requirements of the Labor and Labor Law in the Kingdom of Saudi Arabia. The valuation was prepared by an independent external actuary using the key assumptions set out above.

The balance of employee benefits increased from SAR 12.8 million as of 31 December 2020G to SAR 16.6 million as of 31 December 2021G, due to an increase in the expected salary growth rate from 1.00% as of 31 December 2020G to 7.36% as of 31 December 2021G, in addition to increasing the number of employees (+47). This was partially offset by the increase in the discount rate from 3.27% as of 31 December 2020G to 3.67% as of 31 December 2021G.

The balance of employee benefits increased from SAR 16.6 million as of 31 December 2021G to SAR 21.1 million as of 31 December 2022G, due to the increase in the number of employees (+29). This was partially offset by a decrease in the expected salary growth rate from 7.36% as of 31 December 2021G to 5.00% as of 31 December 2022G and an increase in the discount rate from 3.67% as of 31 December 2021G to 4.50% as of 31 December 2022G.

6-2-2-4 Current Liabilities

Table No (154):: Current liabilities as at 31 December 2020G, 2021G and 2022G

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Short term loans	42,052,950	66,436,956	69,130,087
Loans and advances – current portion	-	4,753,451	6,337,936
Trade payables	26,202,827	32,732,211	37,954,257
Accruals and other current liabilities	11,307,130	8,320,800	13,282,053
Due to shareholders	-	356,282	-
Due to related parties	18,825	-	100,000
Zakat payable	5,182,820	4,790,776	5,586,592
Total current liabilities	84,764,552	117,390,476	132,390,925

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Short term loans

Table No (155): Short-term loans as of December 31, 2020, December 31, 2021, and December 31, 2022

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Opening balance	11,727,435	42,052,950	66,436,956
Loan proceeds during the year	104,704,863	83,516,906	121,941,974
Repayments during the year	(74,379,348)	(59,132,900)	(119,248,843)
Closing balance	42,052,950	66,436,956	69,130,087

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

The group obtained Murabaha and Musharaka financing from several local commercial banks at agreed commercial rates. The total amount of short-term loans available to the Company reached SAR 91.0 million in the fiscal year 2022G, and the total amount of short-term loans issued and outstanding amounted to SAR 69.1 million. Thus, the total short-term loans available but not issued amounted to SAR 21.9 million during the same year.

All local bank loans are guaranteed by personal guarantees from the group's shareholders.

Short-term loans mainly consist of:

1. A Renewable loan for the purpose of (financing receivables from NUPCO / the Ministry of Health, and paying salaries) and short-term loans from Banque Saudi Fransi in the amount of SAR 42 million at a Sibor Murabaha rate + 1.75%, to be paid in full by September 2023G, and the loan was guaranteed by a solidary personal guarantee. Takaful to the bank by shareholders in the Company, a promissory note, and waivers of insurance proceeds and project revenues, in addition to the mortgage of real estate deeds belonging to the Company's main offices in the city of Riyadh (see Section No. (12-7) «**Properties owned and leased by the Company**» of this Prospectus).
2. A short-term loan for term financing from the Saudi Investment Bank worth SAR 13.8 million with a SIBOR Murabaha rate + 2.0%, to be fully repaid by March 2023G. The loan was guaranteed by a joint and several personal guarantee of the bank by shareholders in the Company, a promissory note, and concessions on project revenues.
3. A short-term loan for term financing from the Arab National Bank worth SAR 11.7 million with a SIBOR Murabaha rate + 2.25%, to be repaid in full by July 2023G. The loan was guaranteed by a joint and several personal guarantee to the bank by shareholders in the Company, a promissory note, and assignments of project revenues.

4. Renewable financing facilities from Bank Albilad worth SAR 1.6 million for purchases from suppliers with a SIBOR Murabaha rate + 2.25%, to be paid in full by February 2023G. The facilities were guaranteed by a joint and several personal guarantee to the bank by the shareholder / Ahmed Shaher Ahmed Al-Tabbaa, and waivers on the financed contracts. and project revenues. The agreement with Bank Albilad expired on 03/04/2023G, and the Company did not renew it.
5. The Saudi Industrial Development Fund loan issued in February 2021G for a period of one year to finance working capital, with a Murabaha rate of 2%, was fully repaid in February 2022G.

For more details about loans and facilities, see Section No. (12-8) «**Loans and Facilities**» of this Prospectus.

The balance of short-term loans increased from SAR 42.1 million as of 31 December 2020G to SAR 66.4 million as of 31 December 2021G, in line with the decrease in receipts from government sector clients.

The balance of short-term loans continued to increase, reaching SAR 69.1 million as of 31 December 2022G, due to financing the increase in inventory.

Loans and advances - Current portion

Table No (156): Statement of movement in long-term loans as of December 31, 2020, 2021, and 2022

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Opening Balance	833,333	20,598,291	20,598,291
Loan proceeds during the year	20,598,291	-	-
Repayments during the year	(833,333)	-	(4,753,451)
Closing balance	20,598,291	20,598,291	15,844,840

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Table No (157): Outstanding balances as of December 31, 2020, 2021, and 2022

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Current portion	-	4,753,451	6,337,936
Non-current portion	20,598,291	15,844,840	9,506,904
Total	20,598,291	20,598,291	15,844,840

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Contrary to what is stated in Section No. (6-2-2-3) «**Non-Current Liabilities**» Section No. (6-2-2-4) «**Current Liabilities**» and Section No. (12-8) «**Loans and Facilities**» of this Prospectus, The Directors declare that the Company and its subsidiaries have no issued or existing debt instruments, term loans or mortgages, or approved but not issued, secured or unsecured by mortgage, or by personal guarantee.

Other than what was stated in Section No. (6-2-2-3) «**Non-Current Liabilities**» Section No. (6-2-2-4) «**Current Liabilities**» and Section No. (12-8) «**Loans and Facilities**» of this Prospectus, The Directors declare that the Company does not have any loans or other indebtedness, including overdrafts on bank accounts, liabilities under acceptance, acceptance credit or hire purchase liabilities whether secured by a personal guarantee, not secured by a personal guarantee, secured by a mortgage or not secured by a mortgage.

Contrary to what is stated in Section No. (6-2-2-3) «**Non-Current Liabilities**» Section No. (6-2-2-4) «**Current Liabilities**» and Section No. (12-8) «**Loans and Facilities**» of this Prospectus, The members of the Board of Directors declare that the properties of the Company and its subsidiaries are not subject to any encumbrances, rights or encumbrances as of the date of this Prospectus.

Potential Engagements and Liabilities

Table No (158): Contingent Liabilities as of December 31, 2020, 2021, and 2022

(SAR)	As at 31 December	
	2021G (Audited)	2022G (Audited)
Letters of credit	20,195,791	36,063,782
Letters of guarantee	3,013,867	3,002,770
Total	23,209,658	39,066,552

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Letters of credit are contractual obligations by the group bank to pay once the export suppliers have shipped the goods and provided the required documents to the exporter's bank as proof. The total value of letters of credit issued and outstanding from the Group's bank facilities amounted to approximately SAR 20.2 million as of 31 December 2021G and SAR 36.0 million as of 31 December 2022G.

Letters of guarantee are commitments or guarantees of good performance of the group attached to its obligations for government delivery to ensure compliance with the terms and conditions of its government obligations. The total value of letters of guarantee issued and outstanding from the Group's bank facilities amounted to approximately SAR 3.0 million as of 31 December 2021G and 2022G.

Other than what was stated above and what was stated in Section No. (6-2-2-4) «**Current Liabilities**» and Section No. (12-8) «**Loans and Facilities**» of this Prospectus, the members of the Board of Directors declare that the Company and its subsidiaries do not have any potential liabilities. or guarantees as at the date of this Prospectus.

Trade Payables

Table No (159): Trade payables as of December 31, 2020, 2021, and 2022

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Local suppliers	20,362,840	16,859,945	20,508,413
Foreign suppliers	5,839,987	15,872,266	17,445,844
Total	26,202,827	32,732,211	37,954,257
Trade payables	16,615,841	22,734,699	26,298,892
Accruals and other current liabilities	9,586,986	9,997,512	11,655,365

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Trade payables, accruals and other current liabilities amounted to SAR 38.0 million as of 31 December 2022G, and mainly included a value of SAR 20.5 million for local suppliers, and a value of SAR 17.4 million for foreign suppliers. Trade payables, amounting to SAR 26.3 million, relate to the Company's suppliers. Other current receivables and liabilities, amounting to SAR 11.7 million, relate to suppliers of fixed assets, marketing and service providers, among others.

Trade Payables - Local Suppliers

Trade payables from local suppliers decreased from SAR 20.4 million as of 31 December 2020G to SAR 16.9 million as of 31 December 2021G, as a balance of SAR 2.8 million was liquidated to one of the local suppliers.

The value of payables related to local suppliers increased to SAR 20.5 million as of 31 December 2022G, due to the increase in the balance of payables to two local suppliers by SAR 1.9 million as of 31 December 2022G.

Trade Payables - Foreign Suppliers

The value of trade payables from foreign suppliers amounted to SAR 17.4 million as of 31 December 2022G, mainly related to the import of raw materials.

Trade payables from the three largest foreign suppliers constituted 26.3% of the total trade payables related to foreign suppliers.

The value of trade payables related to foreign suppliers increased from SAR 5.8 million as of 31 December 2020G to SAR 15.9 million as of 31 December 2021G. This is due to the mix of suppliers and the increase in purchases in the fourth quarter of 2021G.

The value of trade payables related to foreign suppliers increased by SAR 1.5 million as of 31 December 2022G.

Accruals and other current liabilities

Table No (160): Accruals and other current liabilities as of December 31, 2020, 2021, and 2022

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Salaries and related benefits	9,916,731	7,156,373	6,561,792
Marketing and advertising*	235,644	140,000	1,205,950
Board remuneration	-	-	1,150,000
Customers with credit balances	634,825	352,395	1,166,787
Eligible for discounts	-	-	798,442
Professional fees	147,500	150,440	729,175
Payments made by employees*	248,901	312,261	352,699
Withholding tax due*	59,196	97,014	130,112
Other*	64,332	112,317	1,187,096
Total	11,307,130	8,320,800	13,282,053

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

* The figures have been restated as of December 31, 2020G, according to the classification in the audited consolidated financial statements ending on December 31, 2022G.

Salaries and Related Benefits

Salaries and Related Benefits relate to employee incentives and bonuses, and their value decreased from SAR 9.9 million as of 31 December 2020G to SAR 7.2 million as of 31 December 2021G, and then to SAR 6.6 million as of 31 December 2022G, due to the lack of achieving the sales goals set for the years 2021G and 2022G.

Marketing and Advertising

Marketing and advertising accruals relate to advertising and marketing activities, and there is no significant change between 31 December 2020G and 31 December 2022G.

The increase in marketing and advertising receivables by SAR 1.1 million from 31 December 2021G to 31 December 2022G is primarily due to the presence of credit balances related to advertising and marketing work, which amounted to SAR 0.5 million, in addition to the increase in accrued activation and promotion activities amounting to SAR 0.6 million, the invoices of which have not yet been received, but the work was carried out in 2022G.

Board Remuneration

Bonuses for members of the Board of Directors and committees, amounting to SAR 1.2 million, were recorded for the first time in 2022G due to the allocation of bonuses to members of the Board of Directors after the Company was converted into a Saudi joint stock company pursuant to Ministry of Commerce Resolution No. (962) dated 13/09/1443H (corresponding to 14/04/2022G).

Customers with Credit Balances

The balance of customers with credit balances constitutes refunds from some customers.

The amount of customers with credit balances decreased from SAR 634.8 thousand as of 31 December 2020G to SAR 352.4 thousand as of 31 December 2021G. This is due to the decrease in the quantities of recovered purchases during that period.

The amount of customers with credit balances increased to SAR 1.2 million as of 31 December 2022G, due to the increase in the amount of credit notes and the return of goods from a customer.

Eligible for Discounts

The discounts are due to estimates issued by the group for expected recoveries during 2023G related to Wasfaty products that were sold in the last 10 days of 2022G. This account is new, due to the increase in the amount of credit notes related to Wasfaty products during 2022G.

Professional Fees

Professional fees accruals relate to consulting expenses, zakat consulting expenses, legal consulting expenses, and audit expenses.

Professional fees increased from SAR 147.5 thousand as of 31 December 2020G to SAR 150.4 thousand as of 31 December 2021G, and increased to SAR 729.2 thousand as of 31 December 2022G. This is due to the high costs of legal advice and consultations related to the offering process.

Payments Made By Employees

Payments from employees relate to expenses attributable to employees who have resigned from the Group. The value of this account did not change significantly during the period.

Withholding Tax Due

Withholding tax applies when payments are made from a licensed organization, a resident party, or to a non-resident party for services provided. The value or percentage of the tax may vary between 5%, 15%, and 20% depending on the type of service. The withholding tax payable was stable during the period between 31 December 2020G and 31 December 2022G.

Other

Other receivables amounted to SAR 1.2 million as of 2022G, and mainly related to financing fees due on short-term loans amounting to SAR 0.8 million, in addition to accrued shipping expenses amounting to SAR 0.3 million.

Due to Related Parties

Table No. (161): Due to related parties as of December 31, 2020, 2021, and 2022

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Faisal Shafer Ahmad Al-Tabbaa	-	-	100,000
Al-Shamila Distribution Limited Company	-	356,282	-

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Shareholder Mr. Faisal Shafer Ahmed Al-Tabbaa

Lawyer Mr. Faisal Shafer Ahmed Al-Tabbaa is one of the Company's shareholders and owns 6.4% of Avalon Pharma before the offering. It is worth mentioning that the Company has concluded a legal consultation agreement with the lawyer, Mr. Faisal Shafer Ahmed Al-Tabbaa, on 01/01/2023G, one of the Company's shareholders, under which he provides legal advice to the Company and represents it regarding its legal work. The monthly fees are set at (SAR 25,000) twenty-five thousand, and the agreement is open-ended and can be terminated by both parties (see Section No. (12-6-1) «**Related Party Contracts and Transactions**» of this Prospectus) .

Al-Shamila Distribution Limited Company

On 13 October 2021G, the shareholders of Al-Shamila Distribution Limited Company decided to convert the Company's operations to become a subsidiary through the transfer of net assets. Accordingly, the Al-Shamila Distribution Limited Company ceased to be a related party, and on the transfer date, its net assets were transferred to the Group.

Equity

Table No. (162): Equity as of December 31, 2020, 2021, and 2022

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Capital	60,000,000	60,000,000	200,000,000
Statutory reserve	19,308,236	19,308,236	25,253,411
Other reserve	(16,987)	(14,447,828)	(24,359,591)
Retained earnings	173,137,616	202,220,693	79,379,813
Total equity	252,428,865	267,081,101	280,273,633

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Total equity increased from SAR 252.4 million as of 31 December 2020G to SAR 267.1 million as of 31 December 2021G, driven mainly by net profits for the year, which amounted to SAR 66.3 million. It was partially offset by dividends paid of SAR 37.2 million, in addition to another comprehensive loss of SAR 14.4 million related to fair value losses resulting from the investment in Columbia Care International Holdco of SAR 10.3 million, and the remeasurement of employee defined benefit obligations of SAR 4.1 million.

Total equity increased to SAR 280.3 million as of 31 December 2022G, driven mainly by net profits for the year, which amounted to SAR 59.5 million, partially offset by dividends paid amounting to SAR 36.4 million, in addition to another comprehensive loss of SAR 9.9 million related to the fair value losses resulting from the investment in Columbia Care Inc., which amounted to SAR 6.2 million, and the remeasurement of employee defined benefit obligations amounting to SAR 3.7 million.

Capital

During the fiscal years ending on 31 December 2020G and 31 December 2021G, the Company's capital amounted to SAR 60 million, divided into 80 thousand shares with a value of SAR 750 per share. On 19/07/1443H (corresponding to 20/02/2022G), the authorized and paid-up capital was increased to SAR 200 million, divided into 20 million shares with a value of SAR 10 per share.

The capital increase of SAR 140 million was achieved by transferring the entire amount from the retained earnings account to the capital account, and all regulatory procedures related to this matter were completed.

Statutory Reserve

Before the issuance of the new corporate system pursuant to Royal Decree No. (M/3) dated 28/01/1437H (corresponding to 10/11/2015G) and amended by Royal Decree No. (M/132) dated 01/12/1443H (corresponding to 30/06/2022G), and during the years 2020G, 2021G, and 2022G, the Company was required to recognize a reserve consisting of 10% of the net profit for the year until the reserve value reached 30% of the capital. It is worth noting that this reserve is not available for distribution. The balance of the statutory reserve amounted to SAR 19.3 million as of 31 December 2020G and 31 December 2021G, and then increased to SAR 25.3 million as of 31 December 2022G in line with the increase in the Company's capital.

Other Reserve

The balance of the other reserve amounted to SAR 14.5 million as of 31 December 2021G, and reflects net fair value losses resulting from the investment in Columbia Care International Holdco amounting to SAR 10.3 million, and the reserve for remeasurement of employee defined benefit obligations of SAR 4.1 million.

The other reserve balance increased from SAR 14.5 million as of 31 December 2021G to SAR 24.4 million as of 31 December 2022G. This is due to the increase in fair value losses resulting from the investment in Columbia Care Inc., amounting to SAR 6.2 million, and the reserve for remeasurement of liabilities of defined benefits for employees amounting to SAR 3.7 million.

Retained Earnings

The balance of retained earnings increased from SAR 173.1 million as of 31 December 2020G to SAR 202.2 million as of 31 December 2021G as a result of the following:

- Profit for the year amounting to SAR 66.3 million was recorded in retained earnings.
- The Company distributed profits amounting to SAR 37.2 million, deducting retained earnings.

During the year 2022G:

- The Company increased the capital by SAR 140 million to reach SAR 200 million, by transferring the entire amount from the retained earnings account to the capital account.
- Profit for the year amounting to SAR 59.5 million was recorded in retained earnings.
- The Company distributed profits amounting to SAR 36.4 million, deducting retained earnings.

Therefore, the balance of retained earnings decreased from SAR 202.2 million as of 31 December 2021G to SAR 79.4 million as of 31 December 2022G.

6-2-2-5 Statement of cash flows for the fiscal years ending on December 31, 2020, 2021, and 2022G

Table No. (163): Statement of cash flows for the fiscal years ending on December 31, 2020, 2021, and 2022

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Cash flows from operating activities:			
Profit of the year	72,812,893	66,283,077	59,451,749
Adjustments to reconcile net profit with net cash flows generated from operating activities:			
Depreciation	6,692,408	6,701,580	6,840,961
Amortization	2,169,024	2,868,242	3,779,069
Provision for employee benefits	1,957,853	1,910,149	2,862,721
Loss on disposal of equity investments	-	2,756,457	-
Interest costs on loans	956,429	1,184,955	4,734,120
Impairment loss on trade receivables	2,000,000	-	130,000
Charge /(reverse) provision for slow moving inventory	430,708	(127,533)	1,613,821
Zakat expense	5,000,000	4,176,810	5,571,317
Loss on disposal of intangible assets	-	78,359	56,250
Gain on disposal of property, plant and equipment	1,252	(43,992)	(77,161)
Changes in operating assets and liabilities:			
Trade receivables	2,404,578	(54,501,636)	11,863,684
Advance payments and other current assets	(1,660,123)	5,385,916	(4,624,703)
Inventory	(41,309,348)	8,187,986	(27,377,098)
Trade payables	(540,598)	6,540,843	5,222,046
Due to shareholders	-	356,282	-
Due to the related party	18,825	(18,825)	-
Accruals and other current liabilities	817,130	(2,986,330)	5,061,256
Cash generated from operating activities	51,751,031	48,752,340	75,108,032
Zakat paid	(3,689,274)	(4,573,596)	(4,775,501)
Paid employee benefits	(2,689,790)	(2,265,737)	(2,095,855)
Net cash generated from operating activities	45,371,967	41,913,007	68,236,676
Cash flows from investing activities:			
Purchase of property, plant and equipment	(32,998,504)	(15,432,777)	(9,358,451)
Purchasing intangible assets	(6,574,487)	(9,245,289)	(11,030,966)
Purchase equity investments	(22,717,190)	(166,491)	-
Proceeds from disposal of property, plant and equipment	5,406	44,205	406,187
Selling a subsidiary to the Company's shareholders	(171,297)	-	-
Net cash used in investing activities	(62,456,072)	(24,800,352)	(19,983,230)
Cash flows from Financing activities:			
Proceeds from loans during the year	125,303,154	83,516,906	121,941,974
Repayment of the short-term loan during the year	(75,212,681)	(59,132,900)	(119,248,843)
Repayment of the long-term loan during the year	-	-	(4,753,451)

(SAR)	As at 31 December		
	2020G (Audited)	2021G (Audited)	2022G (Audited)
Amount due to shareholders from transfer to Al-Shamila Distribution Limited Company	-	-	(356,282)
Dividends paid	(36,260,000)	(37,200,000)	(36,347,454)
Interest costs on loans paid	(956,429)	(1,184,955)	(4,734,120)
Net cash generated from/(used in) financing activities	12,874,044	(14,000,949)	(43,498,176)
Net changes in cash and cash equivalents	(4,210,061)	3,111,706	4,755,270
Cash and cash equivalents at the beginning of the year	20,133,927	15,923,866	19,035,572
Cash and cash equivalents at the end of the year	15,923,866	19,035,572	23,790,842

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022.

Net Cash Generated from Operating Activities

Net cash generated from operating activities decreased from SAR 45.4 million during the fiscal year ending 31 December 2020G to SAR 41.9 million during the fiscal year ending 31 December 2021G, driven primarily by a decrease in profit for the year by SAR 6.5 million, in addition to an increase in trade receivables due to decreased cash collection from government sector customers.

Net cash generated from operating activities increased from SAR 41.9 million during the fiscal year ending on 31 December 2021G to SAR 68.2 million during the fiscal year ending on 31 December 2022G, due to the improvement in collections from retail customers and government sector customers alike. This was partially offset by the increase in stock balance due to the increase in stock in the group after new regulations issued by the Saudi Food and Drug Authority required manufacturers to maintain a stock sufficient for at least 6 months.

Net cash used in investing activities

Net cash used in investing activities decreased from SAR 62.5 million during the fiscal year ending 31 December 2020G to SAR 24.8 million during the fiscal year ending 31 December 2021G, primarily due to lower capital expenditures on the Avalon Factory (2) and the Avalon Factory (3) and Avalon Warehouse (4), where the majority of capital expenditures in fiscal year 2020G were spent. In addition, a 15% stake in Columbia Care International Holdco was acquired for SAR 21.5 million, and Noha Consultancy and Emulsion Cosmetics Limited were acquired for SAR 1.1 million in the fiscal year 2020G. The group spent approximately SAR 26.9 million during the fiscal years 2020G, 2021G, and 2022G to cover product development costs (capitalized within intangible assets).

Net cash used in investing activities decreased from SAR 24.8 million during the fiscal year ending 31 December 2021G to SAR 20.0 million during the fiscal year ending 31 December 2022G, due to lower capital expenditures during that year.

Net Cash Generated From/(Used In) Financing Activities

Net cash generated from (used in) financing activities decreased from an increase of SAR 12.9 million during the fiscal year 2020G to a deficit of SAR 14.0 million during the fiscal year 2021G, then to a deficit of SAR 43.5 million during the fiscal year 2022G. This is mainly due to working capital financing, especially in light of delays in government collections, and the purchase of raw materials and packaging materials to support inventory.

It should be noted that:

1. A long-term loan was obtained from Banque Saudi Fransi in the amount of SAR 20.5 million during the fiscal year 2020G to finance the construction of Avalon Warehouse (4) and the expansion of Avalon Factory (2) and Avalon Factory (3), and it will be repaid in 13 quarterly installments starting in September 2022G. This led to an increase in the Company's cash inflows in fiscal year 2020G, as payment will be made during fiscal year 2022G.
2. A loan was obtained from the Saudi Industrial Development Fund during the month of February 2021G, at a value of SAR 37.2 million, for a period of one year, to finance working capital, and it was paid in full during the month of February 2022G. This led to an increase in loan proceeds during fiscal year 2021G and repayments during fiscal years 2021G and 2022G.

3. A Banque Saudi Fransi loan amounting to SAR 42 million was obtained during the fiscal year 2022G, to be repaid in full during the fiscal year 2023G, which led to an increase in loan proceeds during the fiscal year 2022G. The Company paid dividends amounting to SAR 36.3 million in 2020G, 37.2 million in 2021G, and SAR 36.3 million in 2022G.

The Company paid dividends amounting to SAR 36.3 million in 2020G, 37.2 million in 2021G, and SAR 36.3 million in 2022G.

6-3 Results of Operations for the Six-Month Periods Ending on 30 June 2022G and 2023G

The Company's specific financial information and key performance indicators set out below should be read in conjunction with the reviewed consolidated financial statements for the six-month periods ending 30 June, 2022G and 2023G, including the accompanying notes, prepared in accordance with International Accounting Standard No. (34) «**Interim Financial Reporting**», as approved. In the Kingdom and other standards and issuances issued by the SOCPA, which are included in Section No. (19) «**The Financial Statements and Auditors Report**».

6-3-1 Summary of Financial Information and Key Performance Indicators.

Table No. (164): Summary of financial information from profit or loss and other comprehensive income for the six-month periods ending on June 30, 2022 and 2023

(SAR)	Six-month period ending June 30		
	2020G (Reviewed)	2021G (Reviewed)	Period change
Revenues	132,890,356	148,519,022	11.8%
Gross profit	77,822,122	86,403,750	11.0%
Operating profit	23,256,939	23,330,375	0.3%
Profit before Zakat	20,551,865	20,547,760	(0.0%)
Profit of the period	17,676,863	17,547,760	(0.7%)
Items that will not be reclassified to profit or loss:			
Equity investments at fair value through other comprehensive income - net change in fair value	(4,709,100)	(2,325,164)	(50.6%)
Remeasurement of defined benefit obligations	(624,708)	-	(100.0%)
Other comprehensive loss for the period	(5,333,808)	(2,325,164)	(56.4%)
Total comprehensive income for the period	12,343,055	15,222,596	23.3%

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Table No. (165): Summary of financial information from the consolidated statement of financial position for the fiscal year ending on December 31, 2022G and the six-month period ending on June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Non-current assets	150,954,688	153,192,906
Current assets	291,498,183	272,627,807
Total assets	442,452,871	425,820,713
Total Equity	280,273,633	277,496,229
Non-current liabilities	30,586,755	27,763,070
Current liabilities	131,592,483	120,561,414
Total Liabilities	162,179,238	148,324,484
Total equity and liabilities	442,452,871	425,820,713

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Table No. (166): Summary of financial information from the statement of cash flows for the reviewed six-month period ending on June 30, 2022G and 2023G

(SAR)	As of June 30	
	2022G (Reviewed)	2023G (Reviewed)
Net cash generated from operating activities	7,964,208	30,233,687
Net cash used in investing activities	(6,876,920)	(10,886,560)
Net cash generated from financing activities	(8,217,381)	(33,280,428)

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Table No. (167): Key performance indicators for the six-month periods ending on June 30, 2022G and 2023G

Income statement measure			
As a percentage of revenue	Six-month period ending on June 30, 2022 (Reviewed)	Six-month period ending on June 30, 2023 (Reviewed)	Period change
Gross profit margin (1)	58.6%	58.2%	(0.4)
Operating profit margin (2)	17.5%	15.7%	(1.8)
EBITDA margin (3)	21.2%	19.7%	(1.6)
Net profit margin (4)	13.3%	11.8%	(1.5)
Selling and distribution expenses	(26.9%)	(26.9%)	0.0
General and administrative expenses	(14.1%)	(15.4%)	(1.3)
Other revenues/(expenses).	(0.1%)	(0.3%)	(0.3)

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

1. Gross profit margin is defined as gross profit divided by revenue, and is a percentage.
2. Operating profit margin is defined as operating profit divided by revenue, and is a percentage.
3. EBITDA margin is defined as EBITDA divided by revenue, and is a percentage.
4. Net profit margin is defined as profit for the year divided by revenues, and is a percentage.

Table No. (168): Measures of the statement of financial position for the fiscal year ending on December 31, 2022G and the six-month period ending on June 30, 2023G

Financial position statement metrics		
	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Receivables turnover rate (days) (1)	183	178
Inventory turnover rate (days) (2)	309	293
Payables turnover rate (days) (3)	97	95
Cash turnover rate (days) (4)	394	376
Return on assets (5)	13,4%	13,9%
Return on equity (6)	21,2%	21,4%

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

1. The receivables turnover rate (days) is calculated based on the group's total revenues during the year.
2. Inventory turnover (days) is calculated based on the cost of goods sold during the year.
3. The accounts payable turnover rate (days) is calculated based on the cost of purchases during the year.
4. Cash turnover rate (days) is calculated based on the sum of accounts receivable turnover rate, inventory turnover rate, and accounts payable turnover rate.

5. Return on assets is calculated as follows: net profit for the year / total assets at the end of the year.
6. Return on equity is calculated as follows: net profit for the year / total equity at the end of the year.

6-3-2 Statement of comprehensive income for the six-month periods ending on June 30, 2022G and 2023G

Table No. (169): Statement of comprehensive income for the six-month periods ending on June 30, 2022G and 2023G

(SAR)	Six-month period ending June 30		
	2022G (Reviewed)	2023G (Reviewed)	Period change
Revenues	132,890,356	148,519,022	11.8%
Cost of revenue	(55,068,234)	(62,115,272)	12.8%
Gross profit	77,822,122	86,403,750	11.0%
Selling and distribution expenses	(35,770,182)	(39,968,744)	11.7%
General and administrative expenses	(18,707,271)	(22,930,462)	22.6%
Reversal of impairment loss on trade receivables	-	328,606	N/A
Other expenses	(87,730)	(502,771)	473.1%
Operating profit	23,256,939	23,330,375	0.3%
Financing costs	(2,705,074)	(2,782,615)	2.9%
Profit before zakat	20,551,865	20,547,760	(0.0%)
Zakat expense	(2,875,002)	(3,000,000)	4.3%
Profit for the period	17,676,863	17,547,760	(0.7%)
Items that will not be reclassified to profit or loss:			
Equity investments at fair value through other comprehensive income - net change in fair value	(4,709,100)	(2,325,164)	(50.6%)
Remeasurement of defined benefit obligations	(624,708)	-	(100.0%)
Other comprehensive loss for the period	(5,333,808)	(2,325,164)	(56.4%)
Total comprehensive income for the period	12,343,055	15,222,596	23.3%
Gross profit (%)	58.6%	58.2%	(0.4)
Operating profit (%)	17.5%	15.7%	(1.8)
Net profit for the period (%)	13.3%	11.8%	(1.5)
Selling and distribution expenses	(26.9%)	(26.9%)	0.0
General and administrative expenses	(14.1%)	(15.4%)	(1.3)

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Revenues

Revenues increased from SAR 132.9 million during the six-month period ending 30 June 2022G to SAR 148.5 million during the six-month period ending 30 June 2023G, driven primarily by:

1. Increased revenues from government sector clients (SAR +7.5 million), especially with the increase in NUPCO's tender work related to sterilizer and disinfectant products,
2. Increased revenues from Wasfaty by SAR 3.5 million driven by an increase in net revenues from Salinose,
3. Increased revenues from retail customers (+SAR 3.5 million) as a result of shifting focus from sub-agents to hospitals and polyclinics.

Cost of Revenue

Cost of revenues increased from SAR 55.1 million during the six-month period ending 30 June 2022G to SAR 62.1 million during the six-month period ending 30 June 2023G, driven primarily by an increase in raw materials from SAR 15.8 million to SAR 17.1 million in line with revenue growth during the same period.

Gross Profit

Gross profit as a percentage of revenues decreased slightly from 58.6% to 58.2% during the six-month period ending 30 June 2022G and the six-month period ending 30 June 2023G, respectively, in addition to the impact of the change in the net selling price (after discounts/ Discounts) and prices of raw materials and packaging. The Company's gross profit margin is also affected by the types of products sold, as some products with high demand have lower profit margins. The gross profit is also affected by the sales channels, as government tenders usually return lower profit margins than retail and export channels.

Selling and Distribution Expenses

Selling and distribution expenses increased by SAR 4.2 million from SAR 35.8 million during the six-month period ending 30 June 2022G to SAR 40.0 million during the six-month period ending 30 June 2023G, driven primarily by the following:

- Increased staff costs with increased salaries and other related benefits (including housing, transportation, etc.) (SAR +4.1 million) in line with the increase in the number of employees (+8) and higher employee incentives and severance costs, and
- This was partially offset by a decrease in marketing and advertising expenses of (SAR -1.0 million).

General and Administrative Expenses

General and administrative expenses increased by SAR 4.2 million from SAR 18.7 million during the six-month period ending 30 June 2022G to SAR 22.9 million during the six-month period ending 30 June 2023G, driven primarily by the following:

- An increase in professional fees (SAR +1.3 million), including SAR 1.0 million related to fees for professional consulting services and SAR 0.3 million related to public offering costs,
- Remuneration for board and committee members amounted to SAR 1.0 million during the six-month period ending on 30 June 2023G, compared to nothing in the six-month period ending on 30 June 2022G.
- An increase of SAR 0.5 million in consumables expenses that relate to research and development expenses for pharmaceutical formulation materials, and
- An increase in fees on the letter of guarantee/credit of SAR 0.5 million related to the administrative fees of the Saudi Investment Bank.

Reversal of impairment loss on trade receivables

The value of the reversal of impairment losses on trade receivables during the six-month period ending on 30 June 2023G amounted to SAR 0.3 million, and this is due to the collection of those receivables during the period.

Other expenses

Other expenses mainly include loss on foreign exchange. The loss in actual foreign currencies amounted to SAR 0.5 million during the six-month period ending on 30 June 2023G, compared to SAR 0.1 million during the six-month period ending on 30 June 2022G. The group is primarily exposed to changes in exchange rates on its purchases from Europe, as the group's sales are either in SAR for its local sales or in US dollars for export sales.

Financing costs

Financing costs increased from SAR 2.7 million during the six-month period ending 30 June 2022G to SAR 2.8 million during the six-month period ending 30 June 2023G , primarily as a result of the following:

- The financing cost related to Murabaha increased from SAR 2.0 million during the six-month period ending on 30 June 2022G to 2.2 million during the six-month period ending on 30 June 2023G , after increasing the SIBOR rate from about 2.0% to about 5.9% in the same period, and
- This was partially offset by a slight decrease (-SAR 0.1 million) in the benefit cost of employee defined benefit obligations.

Zakat Expense

The Zakat provision is calculated in accordance with the regulations of the Zakat, Tax and Customs Authority in the Kingdom of Saudi Arabia on an accrual basis.

Zakat expense remained constant during the fiscal year 2022G and the six-month period ending on 30 June 2023G.

Net profit

Net profit decreased from SAR 17.7 million during the six-month period ending on 30 June 2022G to SAR 17.5 million during the six-month period ending on 30 June 2023G, due to:

- Increased selling and distribution expenses by SAR 4.2 million,
- Increase in general and administrative expenses by SAR 4.2 million
- Increase other expenses by SAR 0.4 million, and
- This was offset by an increase in gross profit by SAR 8.6 million during the same period.

Equity investments at fair value through other comprehensive income - net change in fair value

The loss from equity investments decreased from SAR 4.7 million during the six-month period ending 30 June 2022G to SAR 2.3 million during the six-month period ending 30 June 2023G, due to:

- Columbia Care Inc.'s stock price fell to \$0.44 per share on 30 June 2023G, which resulted in a fair value loss of SAR 927.1 thousand during the six-month period ending 30 June 2023G (Loss for the six-month period ending 30 June 2022G: SAR 4.7 million)
- A total loss of SAR 1.4 million was recorded on the fair value of the Company's investment in Noha Consultancy (SAR 0.3 million) and Emulsion Cosmetics Limited (SAR 1.1 million), which was recorded as part of other comprehensive income. The loss was recorded as the two investee companies faced problems related to liquidity and liquidation is underway in the coming months for both investments. Therefore, the value of the investments is zero SAR as of 30 June 2023G.

6-3-2-1 Revenues

Table No. (170): Revenues by customer type for the six-month periods ending on June 30, 2022 and 2023

(SAR)	Six-month period ending June 30		
	2022G (Reviewed)	2022G (Reviewed)	Period change
Retail clients	100,251,490	103,741,363	3.5%
Government sector clients	26,383,382	33,863,317	28.4%
Total local	126,634,872	137,604,680	8.7%
Export clients	6,255,484	10,914,342	74.5%
Total revenue	132,890,356	148,519,022	11.8%
	As a percentage of the total		Percentage Point
Retail clients	75.4%	69.9%	(5.5)
Government sector clients	19.9%	22.8%	2.9
Total local	95.3%	92.7%	(2.6)
Export clients	4.7%	7.3%	2.6

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Retail clients

Retail customer revenues increased by SAR 3.5 million during the six-month period ending 30 June 2023G, compared to the six-month period ending 30 June 2022G, due to an increase in hospital revenues of SAR 4.8 million, and other categories, mainly pharmacies (SAR +4.8), polyclinics (SAR +2.1 million), and others (SAR +3.8 million), which was partially offset by a decrease in sub-agent revenues.

(SAR -5.5 million) and pharmacy chains worth (SAR -6.3 million). Retail revenues were also negatively affected due to a decrease in net Salinose product revenues of SAR 9.1 million from some customers, which was offset by an increase in revenues from most of the Company's other brands.

Government Sector Clients

Revenues related to government sector customers increased from SAR 26.4 million during the six-month period ending 30 June 2022G to SAR 33.9 million during the six-month period ending 30 June 2023G, mainly driven by the following:

- Increased revenues from Nupco by SAR 4.7 million, as a result of Nupco's tender work related to sterilizer and sterilizer products. The Company also introduced a new brand for skin care for skin infections called Avotrene,
- The increase in Wasfaty revenues amounted to SAR 3.5 million mainly from Salinose (SAR + 2.0 million), and
- This was partially offset by a decrease in revenue from product mix in other tenders of SAR 0.7 million.

Export Clients

Revenues related to export customers increased from SAR 6.3 million during the six-month period ending 30 June 2022G to SAR 10.9 million during the six-month period ending 30 June 2023G as a result of:

1. Increase in revenues from the UAE by SAR 3.3 million as a result of the increase in sales of Prila and Avocom Nasal Spray,
2. Increase in revenue from the State of Kuwait by SAR 0.7 million due to the fact that the Group won a government tender for DEXA Cream worth SAR 1.6 million, and
3. This was partially offset by lower revenues for multiple brands such as Alpha Plus and Avogain.

Table No. (171): Revenues by type for the six-month periods ending on June 30, 2022 and 2023G

(SAR)	Six-month period ending June 30		
	2022G (Reviewed)	2023G (Reviewed)	Period change
Dermatologicals and skin care products	69.739,185	83.182,273	19.3%
Respiratory system	31.608,820	29.637,662	(6.2%)
Nervous system	10.243,481	12.237,034	19.5%
Digestive system	6.451,152	8.202,229	27.1%
Musculoskeletal system	5.483,147	5.931,447	8.2%
Other	9.364,571	9.328,377	(0.4)
Total revenue	132.890,356	148.519,022	11.8%
	As a percentage of the total		Percentage Point
Dermatologicals and skin care products	52.5%	56.0%	3.5
Respiratory system	23.8%	20.0%	(3.8)
Nervous system	7.7%	8.2%	0.5
Digestive system	4.9%	5.5%	0.7
Musculoskeletal system	4.1%	4.0%	(0.1)
Other	7.0%	6.3%	(0.8)

Source: Management information for the 6-month periods ended on 30 June 2022 and 2023

Dermatologicals And Skin Care Products

Revenues from Dermatologicals, and skin care products increased from SAR 69.7 million during the first half of 2022G to SAR 83.2 million during the first half of 2023G, mainly from:

1. The increase in revenue generated by P.I. Antiseptic (SAR +4.7 million), and Dexa Cream revenues (SAR +2.2 million),
2. Increase in revenue generated by EZ Care (SAR +1.6 million) after the Company launched new sized packages of the product during the period,
3. The increase in revenue generated by Avoban (SAR +1.2 million) was driven by an increase in net selling price (SAR +1.0 million),
4. Increase in revenue generated by Avocom-M (SAR +1.2 million) as well as Alpha Plus (SAR +1.0 million) and
5. Increase in revenues from two new products Avotrene (SAR +0.9 million) and Amina (SAR 0.3 million), and
6. This was partially offset by lower sales for Avoral (SAR -1.7 million), Avogain (SAR -1.0 million), and Emulsion (SAR -0.7 million).

Respiratory System Medications

Respiratory medications revenues decreased from SAR 31.6 million during the six-month period ending 30 June 2022G to SAR 29.6 million during the six-month period ending 30 June 2023G, driven by a decrease in revenue generated by Salinose (SAR -6.5 million) from a major pharmacy,

This was offset by the increase in revenue generated by Avocom NS (+SAR 2.0 million) due to increased volume from export customers in the UAE and the increase in revenue generated by Rhinase (SAR +1.1 million) due to increased demand from hospitals and others.

Nervous System Medications

Neurological drugs revenues increased from SAR 10.2 million during the six-month period ending 30 June 2022G to SAR 12.2 million during the six-month period ending 30 June 2023G , driven primarily by an increase in Prila revenues (SAR +1.8 million) after a decrease Discounts offered to sub-agents and higher sales to hospitals, partially offset by lower sales of Avocaine (SAR -0.2 million) and others.

Digestive System

Gastrointestinal pharmaceutical revenues increased from SAR 6.5 million during the six-month period ending 30 June 2022G to SAR 8.2 million during the six-month period ending 30 June 2023G , driven primarily by higher sales volume of Avohex (antiseptic mouthwash to reduce gum bleeding) at a value of SAR 0.9 million.

Musculoskeletal System

Musculoskeletal drug revenues increased from SAR 5.5 million during the six-month period ending 30 June 2022G to SAR 5.9 million during the six-month period ending 30 June 2023G, primarily driven by growth in Xibax revenue (SAR +0.3 million) (anti-inflammatory to relieve pain and swelling) and Feel Flex (treatment for muscle pain) (SAR +0.2 million), which was partially offset by lower revenues generated by Avalonactiv (cream to relieve muscle and joint pain) (SAR -0.1 million).

Medicines and other Pharmaceuticals

Other pharmaceutical revenues were relatively stable at SAR 9.3 million during the six-month period ending 30 June 2022G and the six-month period ending 30 June 2023G .

Table No. (172): Revenues by production line for the six-month periods ending on June 30, 2022 and 2023

(SAR)	Six-month period ending June 30		
	2022G (Reviewed)	2023G (Reviewed)	Period change
Liquid	63,433,268	60,131,578	(5.2%)
Cream	42,373,218	53,699,721	26.7%
Disinfectants	15,142,459	170,18,329	21.0%
Solid	7,299,802	9,775,247	33.9%
Cosmetics	2,561,811	4,385,520	71.2%
Imported	2,079,798	2,197,785	5.7%
Total revenue	132,890,356	148,519,022	11.8%
	As a percentage of the total		Percentage Point
Liquid	47.7%	40.5%	(7.2)
Cream	31.9%	36.2%	4.3
Disinfectants	11.4%	12.3%	0.9
Solid	5.5%	6.6%	1.1
Cosmetics	1.9%	3.0%	1.0
Imported	1.6%	1.5%	(1.0)

Source: Management information for the 6-month periods ended on 30 June 2022 and 2023

liquid

Revenues related to liquid products decreased from SAR 63.4 million during the six-month period ended 30 June 2022G to SAR 60.1 million during the six-month period ended 30 June 2023G, driven primarily by lower revenues generated from Salinose (SAR -6.6 million) and Avogain (SAR 1.0 million), partially offset by increases in revenues for Avocom N.S. (SAR +2.0 million) and Rhinase (SAR +1.1 million).

Cream

Revenues related to cream products increased from SAR 42.4 million during the six-month period ending 30 June 2022G to SAR 53.7 million during the six-month period ending 30 June 2023G, driven by an increase in Dexa Cream net revenues (SAR +2.2 million), Prila (1.8 +million SAR), Avoban (SAR +1.2 million), Avocom-M (SAR +1.2 million), and Alpha Plus (+1.1 million SAR). In addition to launching a new anti-inflammatory cream called Avotrene (SAR +0.9 million).

Disinfectants

Revenues related to sterilizer products increased from SAR 15.1 million during the six-month period ending 30 June 2022G to SAR 18.3 million during the six-month period ending 30 June 2023G, due to the increase in P.I Antiseptic revenues (SAR +3.8 million) and Avohex (SAR +1.5 million), which was partially offset by a decrease in revenues for Avoral (SAR -1.8 million).

Solid

Revenues related to solid products increased from SAR 7.3 million during the six-month period ending 30 June 2022G to SAR 9.8 million during the six-month period ending 30 June 2023G, primarily due to the launch of Zencin (antibiotic) (SAR +0.7 million) in addition to increased sales of Broncast (SAR +0.5 million), Xibax (SAR +0.3 million SAR), Lyrgaba (SAR +0.3 million) and others.

Cosmetics

Revenues related to cosmetics products increased from SAR 2.6 million during the six-month period ending 30 June 2022G to SAR 4.4 million during the six-month period ending 30 June 2023G, primarily due to higher sales of EZ Care (skin care brand from Facial and body moisturizers and cleansers) (SAR +1.6 million) in addition to launching a new product under the same brand EZ Care (moisturizing cream), which achieved sales of SAR 0.3 million during the same period.

Imported

Revenues related to imported products increased slightly from SAR 2.1 million during the six-month period ending 30 June 2022G to SAR 2.2 million during the six-month period ending 30 June 2023G, due to the introduction of the new Amina (organic skin care) product which contributed to achieving (SAR +0.3 million) in addition to increasing sales of Rolenium (used in treating asthma) by (SAR +0.5 million), partially offset by a decrease in sales of Emulsion products by (SAR -0.7 million).

6-3-2-2 Cost of Revenues

Table No. (173): Cost of revenues for the six-month periods ending on June 30, 2022 and 2023G

(SAR)	Six-month period ending June 30		
	2022G (Reviewed)	2023G (Reviewed)	Period change
Opening stock of finished goods	24,110,731	36,883,268	53.0%
Add: direct purchases	501,474	2,071,074	313.0%
Add: Cost of finished manufactured:			
Cost of raw materials	15,815,767	17,090,736	8.1%
Cost of packaging materials	18,743,048	18,065,917	(3.6%)
Indirect labor cost	8,216,901	8,284,181	0.8%
Direct labor cost	2,989,233	4,079,837	36.5%
Depreciation	2,148,560	2,059,655	(4.1%)
Amortization	6,983	6,983	0.0%
Other overhead expenses	9,234,782	7,193,155	(22.1%)
Total cost of finished goods	57,155,274	56,780,464	(0.7%)
Deduct: Closing stock of finished goods	(26,699,245)	(33,619,534)	25.9%
Total cost of revenue	55,068,234	62,115,272	12.8%
	As a percentage of the total		Percentage Point
Opening stock of finished goods	43.8%	59.4%	15.6
Add: direct purchases	0.9%	3.3%	2.4
Cost of raw materials	28.7%	27.5%	(1.2)
Cost of packaging materials	34.0%	29.1%	(4.9)
Indirect labor cost	14.9%	13.3%	(1.6)
Direct labor cost	5.4%	6.6%	1.2
Depreciation	3.9%	3.3%	(0.6)
Amortization	0.0%	0.0%	(0.0)
Other overhead expenses	16.8%	11.6%	(5.2)
Total cost of finished goods	(48.5%)	(54.1%)	(5.6)

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Opening/Closing Stock of Finished Goods

The stock level of finished goods increased from SAR 24.1 million during the six-month period ending on 30 June 2022G to SAR 36.9 million during the six-month period ending on 30 June 2023G, according to the requirements of the Food and Drug Authority's regulations for manufacturers to maintain stock enough for at least 6 months.

Direct Purchases

The cost of direct purchases increased from SAR 501.5 thousand during the six-month period ending 30 June 2022G to SAR 2.1 million during the six-month period ending 30 June 2023G, mainly due to purchases of imported finished goods.

Cost of Raw Materials and Packing Materials

The cost of raw materials and packaging materials increased from SAR 34.6 million during the six-month period ending 30 June 2022G to SAR 35.2 million during the six-month period ending 30 June 2023G, mainly due to the increase in production volume.

Cost of Raw Materials and Packing Materials

The cost of raw materials and packaging materials increased from SAR 34.6 million during the six-month period ending 30 June 2022G to SAR 35.2 million during the six-month period ending 30 June 2023G, mainly due to the increase in production volume.

Indirect Labor

Cost Indirect labor costs increased slightly from SAR 8.2 million during the six-month period ending 30 June 2022G to SAR 8.3 million during the six-month period ending 30 June 2023G, primarily due to the following:

- Increase in salaries and other related benefits by SAR 0.8 million, coinciding with an increase in the number of employees (+5).
- This was offset by a decrease in hired labor by SAR 0.8 million after reclassifying manufacturing-related hired labor costs from indirect during 2022G to direct in 2023G.

Direct Labor

Cost Direct labor costs increased from SAR 3.0 million during the six-month period ending 30 June 2022G to SAR 4.1 million during the six-month period ending 30 June 2023G, primarily due to the reclassification of manufacturing-related hired labor costs of SAR 0.8 million from indirect during 2022G to direct in 2023G.

Depreciation

Depreciation expenses stabilized at approximately SAR 2.1 million during the six-month periods ending 30 June 2022G and 2023G.

Amortization

Amortization expenses were related to the laboratory management system and resource planning programs, and there were no significant changes in them during the six-month periods ending 30 June 2022G and 2023G.

Other Overhead Expenses

Other overhead expenses decreased from SAR 9.2 during the six-month period ending 30 June 2022G to SAR 7.2 million during the six-month period ending 30 June 2023G, primarily due to lower other costs (SAR -1.2 million) as a result of lower diesel depreciation since connecting the group to the electric power station, and construction and maintenance expenses (SAR -0.5 million) as a result of the construction of the new Avalon (4) warehouse in the city of Riyadh.

6-3-2-3 Selling and Distribution Expenses

Table No. (174): Selling and distribution expenses for the six-month periods ending on June 30, 2022G and 2023G

(SAR)	Six-month period ending June 30		
	2022G (Reviewed)	2023G (Reviewed)	Period change
Salaries and other related benefits	12,174,392	15,586,013	28.0%
Marketing and advertising expenses	12,378,213	11,334,904	(8.4%)
Housing and catering expenses	3,204,447	3,579,855	11.7%
Shipping	1,907,353	2,235,030	17.2%
Transportation allowance for employees	1,549,792	1,611,762	4.0%
Travel expenses	945,335	1,282,338	35.6%

(SAR)	Six-month period ending June 30		
	2022G (Reviewed)	2023G (Reviewed)	Period change
Expenses of the General Organization for Social Insurance for employees	729,504	758,967	4.0%
Medical insurance for employees	678,068	678,166	0.0%
Visa and residency expenses for employees	438,142	590,055	34.7%
Government and legal fees	359,270	569,531	58.5%
Depreciation	112,439	535,830	376.6%
Other	1,293,227	1,206,293	(6.7%)
Total selling and distribution expenses	35,770,182	39,968,744	11.7%
	As a percentage of the total		Percentage Point
Salaries and other related benefits	34.0%	39.0%	5.0
Marketing and advertising expenses	34.6%	28.4%	(6.2)
Housing and catering expenses	9.0%	9.0%	(0.0)
Shipping	5.3%	5.6%	0.3
Transportation allowance for employees	4.3%	4.0%	(0.3)
Travel expenses	2.6%	3.2%	0.6
Expenses of the General Organization for Social Insurance for employees	2.0%	1.9%	(0.1)
Medical insurance for employees	1.9%	1.7%	(0.2)
Visa and residency expenses for employees	1.2%	1.5%	0.3
Government and legal fees	1.0%	1.4%	0.4
Depreciation	0.3%	1.3%	1.0
Other	3.6%	3.0%	(0.6)

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Salaries and Other Related Benefits

Salaries and other related benefits increased from SAR 12.2 million during the six-month period ending 30 June 2022G to SAR 15.6 million during the six-month period ending 30 June 2023G, primarily due to:

- An increase in employees' end-of-service expenses (SAR +1.0 million). This is due to measuring the end-of-service provision by the Company's management and then reversing the difference (SAR -1.0 million) within general and administrative expenses instead of selling and distribution expenses according to the actuarial report.
- Increasing the number of employees (+8) in addition to increasing salaries during the second half of the fiscal year 2023G, and
- Increasing employee incentives as sales targets were achieved during the six-month period ending 30 June 2023G, in contrast to the six-month period ending 30 June 2022G.

Marketing and Advertising Expenses

- Marketing and advertising expenses decreased from SAR 12.4 million during the six-month period ending 30 June 2022G to SAR 11.3 million during the six-month period ending 30 June 2023G, mainly due to:
- Decrease in promotional advertising (SAR -1.8 million) and other selling activities (SAR -1.4 million) as the Group focuses on shifting from direct to consumer promotions to general consumer advertising,
- This was offset by an increase in advertising activities of (SAR +1.6 million) after the advertising campaign to boost sales of Amina, Avalon Activ, and EZ12 Alpha Plus.

- An increase in market research expenses (SAR +1.0 million) related to a market survey study and competitor analysis, which a consulting company was appointed to carry out.

Housing and Catering Expenses

Housing and catering expenses increased from SAR 3.2 million during the six-month period ending on 30 June 2022G to SAR 3.6 million during the six-month period ending on 30 June 2023G, due to the increase in the number of employees (+8) in the same period.

Shipping

Shipping expenses increased from SAR 1.9 million during the six-month period ending 30 June 2022G to SAR 2.2 million during the six-month period ending 30 June 2023G, primarily due to higher sales from the export and government sectors.

Transportation Allowance For Employees

Transportation allowance expenses increased from SAR 1.5 million during the six-month period ending 30 June 2022G to SAR 1.6 million during the six-month period ending 30 June 2023G, due to the increase in the number of employees (+8) in the same period.

Travel expenses

Travel expenses increased from SAR 945.3 thousand during the six-month period ending 30 June 2022G to SAR 1.3 million during the six-month period ending 30 June 2023G , primarily due to export customer employees traveling to agents outside the Kingdom of Saudi Arabia.

Expenses of the General Organization for Social Insurance for Employees

The General Organization for Social Insurance's expenses for employees increased from SAR 729.5 thousand during the six-month period ending on 30 June 2022G to SAR 759.0 thousand during the six-month period ending on 30 June 2023G, with an increase in the number of employees (+8) in the same period.

Medical insurance for employees

Medical insurance expenses for employees stabilized during the six-month periods ending on 30 June 2022G and 2023G.

Visa and Residency Expenses For Employees

Visa and residency expenses for employees increased from SAR 438.1 thousand during the six-month period ending 30 June 2022G to SAR 590.1 thousand during the six-month period ending 30 June 2023G, primarily due to an increase in accommodation expenses for new employees.

Government and Legal Fees

Government and legal fees increased from SAR 359.3 thousand during the six-month period ending 30 June 2022G to SAR 569.5 thousand during the six-month period ending 30 June 2023G, mainly due to an increase in export registration fees (SAR +0.3 million). This was offset by a decrease in tender fees (SAR -0.1 million).

Depreciation

Depreciation increased from SAR 112.4 thousand during the six-month period ending on 30 June 2022G to SAR 535.8 thousand during the six-month period ending on 30 June 2023G, as a result of the move to the new Avalon (4) warehouse in the second half of 2022G, and expenses were calculated Warehouse depreciation starting from the move date, which resulted in higher depreciation in the six-month period ending 30 June 2023G (nothing during the six-month period ending 30 June 2022G).

Other

Other expenses decreased from SAR 1.3 million during the six-month period ending 30 June 2022G to SAR 1.2 million during the six-month period ending 30 June 2023G, primarily due to lower rental expenses as a result of the move to Avalon Warehouse (4), which was partially offset by an increase in repair and maintenance expenses of SAR 0.1 million related to the renewal of the firefighting system for the new Jeddah office.

6-3-2-4 General and administrative expenses

Table No. (175): General and administrative expenses for the six-month periods ending on June 30, 2022G and 2023G

(SAR)	Six-month period ending June 30		
	2022G (Reviewed)	2023G (Reviewed)	Period change
Salaries and other related benefits	6,616,847	6,300,522	(4.8%)
Professional fees	917,432	2,240,229	144.2%
Amortization	1,648,489	2,154,646	30.7%
Housing and catering expenses	1,738,190	1,795,869	3.3%
Communications expenses	1,309,738	1,595,264	21.8%
Government and legal fees	723,726	1,152,819	59.3%
Depreciation	1,045,234	1,113,042	6.5%
Consumables expenses	466,665	997,101	113.7%
Remuneration for members of committees and the Board of Directors	-	950,000	N/A
Fees on letter of guarantee/credit	253,705	743,385	193.0%
Expenses of the General Organization for Social Insurance for employees	538,448	543,783	1.0%
Transportation allowance for employees	477,780	493,771	3.3%
Medical insurance for employees	468,797	465,933	(0.6%)
Travel expenses	495,703	400,894	(19.1%)
Repair and maintenance	355,718	367,581	3.3%
Other	1,650,799	1,615,623	(2.1%)
Total general and administrative expenses	18,707,271	22,930,462	22.6%
	As a percentage of the total	Percentage Point	
Salaries and other related benefits	35.4%	27.5%	(7.9)
Professional fees	4.9%	9.8%	4.9
Amortization	8.8%	9.4%	0.6
Housing and catering expenses	9.3%	7.8%	(1.5)
Communications expenses	7.0%	7.0%	(0.0)
Government and legal fees	3.9%	5.0%	1.1
Depreciation	5.6%	4.9%	(0.7)
Consumables expenses	2.5%	4.3%	1.8
Remuneration for members of committees and the Board of Directors	0.0%	4.1%	4.1
Fees on letter of guarantee/credit	1.4%	3.2%	1.8
Expenses of the General Organization for Social Insurance for employees	2.9%	2.4%	(0.5)
Transportation allowance for employees	2.6%	2.2%	(0.4)
Medical insurance for employees	2.5%	2.0%	(0.5)
Travel expenses	2.6%	1.7%	(0.9)
Repair and maintenance	1.9%	1.6%	(0.3)
Other	8.8%	7.0%	(1.8)

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Salaries and Other Related Benefits

Salaries and other related benefits decreased from SAR 6.6 million during the six-month period ending on 30 June 2022G to SAR 6.3 million during the six-month period ending on 30 June 2023G . This is due to measuring the end-of-service provision by the Company's management and reversing the difference (SAR - 1.0 million) included in general and administrative expenses instead of selling and distribution expenses according to the actuarial report. This was offset by an increase in salaries after increasing the number of employees (+8) during the second half of the fiscal year 2023G, and an increase in employee incentives, as sales targets were achieved during the six-month period ending on 30 June 2023G, in contrast to the six-month period ending on 30 June 2022G .

Professional fees

Professional fees increased from SAR 917.4 thousand during the six-month period ending on 30 June 2022G to SAR 2.2 million during the six-month period ending on 30 June 2023G. This is due to the Company incurring an amount of SAR 1.1 million related to fees for professional consulting services and an amount SAR 0.3 million related to IPO costs.

Amortization

The amortization expense increased from SAR 1.6 million during the six-month period ending on 30 June 2022G to SAR 2.2 million during the six-month period ending on 30 June 2023G, due to the increase in the capitalized cost of research and development.

Housing and Catering Expenses

Housing and catering expenses remained stable during the six-month periods ending 30 June 2022G and 2023G.

Communications Expenses

Communications expenses increased from SAR 1.3 million during the six-month period ending on 30 June 2022G to SAR 1.6 million during the six-month period ending on 30 June 2023G . This is due to the increase in the prices and value of telephone and Internet bills and other communications expenses during the period.

Government and Legal Fees

Government and legal fees increased from SAR 723.7 thousand during the six-month period ending on 30 June 2022G to SAR 1.2 million during the six-month period ending on 30 June 2023G, mainly due to an increase in government expenditures on trademarks (SAR +0.2 million) in addition to increasing the registration fees for Food and Drug Authority products (SAR +0.1 million).

Depreciation

Depreciation expenses were relatively stable during the six-month periods ending on 30 June 2022G and 2023G, at SAR 1 million.

Consumables Expenses

Consumables expenses increased from SAR 466.7 thousand during the six-month period ending on 30 June 2022G to SAR 997.1 thousand during the six-month period ending on 30 June 2023G, due to the increase in research and development expenses in pharmaceutical composition materials (SAR 0.5 million during the six-month period ending on 30 June 2023G, compared to nothing during the six-month period ending on 30 June 2022G).

Remuneration for Members Of Committees and the Board of Directors

The Company was converted from a limited liability company to a closed joint stock company in April 2022G in preparation for the public offering. Accordingly, the Company incurs expenses in the form of remuneration for members of the Board of Directors, members of the Audit Committee, and members of the Nominations and Remuneration Committee.

Remuneration for members of the Board of Directors and committees amounted to SAR 0.9 million during the six-month period ending on 30 June 2023G.

Fees on Letters of Guarantee/Credit

Fees on letters of guarantee/credit increased from SAR 253.7 thousand during the six-month period ending on 30 June 2022G to SAR 743.4 thousand during the six-month period ending on 30 June 2023G, in line with the increase in the use of letters of credit during the period due to the increase in purchases.

Expenses of the General Organization for Social Insurance for employees

The General Organization for Social Insurance's expenses for employees increased slightly to reach SAR 543.8 thousand with the increase in the number of employees (+5) between the six-month periods ending on 30 June 2022G and 2023G.

Transportation Allowance For Employees

Transportation allowance for employees was relatively stable during the six-month periods ending 30 June 2022G and 2023G, at SAR 0.5 million.

Medical insurance for employees

Medical insurance includes employees and their families, and employee medical insurance expenses remained relatively stable during the six-month periods ending on 30 June 2022G and 2023G.

Travel expenses

Travel expenses decreased from SAR 495.7 thousand during the six-month period ending on 30 June 2022 G to SAR 400.9 thousand during the six-month period ending on 30 June 2023G, due to the decrease in the number of travel trips during the period.

Repair and Maintenance

Repair and maintenance expenses remained stable during the six-month periods ending 30 June 2022G and 2023, at SAR 0.4 million.

Other

Other expenses remained stable during the six-month periods ending 30 June 2022G and 2023G, at SAR 1.6 million.

6-3-2-5 Impairment Loss on Trade Receivables

Table No. (176): Impairment loss on trade receivables as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)	Year/Period change
Provision for the year/period	130,000	(328,606)	(139.6%)
Total impairment loss on trade receivables	8,033,376	7,704,770	4.3%

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Impairment loss on trade receivables represents the expense charged to doubtful debts based on expected credit losses.

The Company reflected a decrease in the provision for trade receivables during the six-month period ending on 30 June 2023G, in the amount of SAR 0.3 million, due to the collection of those receivables during the period, and the total impairment loss in the value of trade receivables amounted to SAR 7.7 million as of 30 June 2023G.

6-3-2-6 Financing Costs

Table No. (177): Financing costs for the six-month periods ending on June 30, 2022 and 2023

(SAR)	Six-month period ending June 30		
	2022G (Reviewed)	2023G (Reviewed)	Period change
Financing cost related to Murabaha	1,988,390	2,200,927	10.7%
Net benefit cost: Defined benefit obligations to employees	716,684	581,688	(18.8%)
Total financing costs	2,705,074	2,782,615	2.9%

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Financing Cost Related to Murabaha

The financing cost related to Murabaha increased from SAR 2.0 million during the six-month period ending on 30 June 2022G to SAR 2.2 million during the six-month period ending on 30 June 2023G, after increasing the SIBOR rate from about 2.0% to about 5.9% in the same period.

Net benefit cost: Defined benefit obligations to employees

The benefit cost of employee defined benefit obligations was relatively stable during the six-month periods ended 30 June 2022G and 2023G.

6-3-2-7 Zakat Expense

The Zakat, Tax and Customs Authority («the Authority») issued the latest final assessment for the year ending on 31 December 2017G, and the Company paid all amounts based on the final assessment.

The Company submitted zakat returns to the Zakat, Tax and Customs Authority for the years up to 31 December 2022G. However, until the date of preparing the financial statements for the six-month period ending on 30 June 2023G, no assessment had been terminated after the Authority terminated the assessment for the year ending 31 December 2017G.

It is worth mentioning that during the month of October 2023G, the Company received the zakat assessments from the Zakat, Tax and Customs Authority for the years from 2018G to 2022G, with an additional commitment amounting to (SAR 401,963) four hundred and one thousand nine hundred and sixty-three, and it will settle it in full as soon as the related invoices are issued by the Zakat and Tax and Customs Authority.

6-3-3 Statement of Financial Position as of 31 December 2022G and 30 June 2023G

Table No. (178): Statement of financial position as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Assets		
Non-current assets		
Property, plant and equipment	105,861,783	108,234,136
Intangible assets	41,487,454	43,678,483
Investments in equity	3,605,451	1,280,287
Total non-current assets	150,954,688	153,192,906
Current assets		
Cash and cash equivalents	23,790,842	9,857,541
Trade receivables	151,573,888	148,490,971
Advance payments and other current assets	13,420,231	9,435,151
Due from related parties	2,498,670	4,149,583
Inventory	100,214,552	100,694,561
Total current assets	291,498,183	272,627,807
Total assets	442,452,871	425,820,713
Equity and liabilities		
Equity		
Capital	200,000,000	200,000,000
Statutory reserve	25,253,411	25,253,411
Other reserve	(24,359,591)	(26,684,755)
Retained earnings	79,379,813	78,927,573
Total equity	280,273,633	277,496,229
Liabilities		
Non-current liabilities		
Loans and advances – non-current portion	9,506,904	6,337,936
Employee benefits	21,079,851	21,425,134
Total non-current liabilities	30,586,755	27,763,070
Current liabilities		
Short term loans	69,130,087	60,427,751
Loans and advances – current portion	6,337,936	6,337,936
Trade payables	37,954,257	35,752,004
Accruals and other current liabilities	12,483,611	14,883,476
Due to the related party	100,000	50,000
Zakat due	5,586,592	3,110,247
Total current liabilities	131,592,483	120,561,414
Total liabilities	162,179,238	148,324,484
Total equity and liabilities	442,452,871	425,820,713

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Management reclassified certain balance sheet accounts as of 31 December 2022, upon issuing the reviewed consolidated financial statements for the six-month period ending 30 June 2023G, without any impact on equity. Accordingly, the results for the year ending 31 December 2022G, as contained in the audited consolidated financial statements for the fiscal year ending 31 December 2022G, were used and analyzed in this section. The table below summarizes the reclassification of the balance sheet for the year ending 31 December 2022G between audited and reviewed statements:

Table No. (179): Analysis of the reclassification of the financial position

(SAR)	Classification of accounts for the year ending on December 31, 2022G in the audited financial statements for the fiscal year ending on December 31, 2022G	Restatement	Classification of accounts for the year ending December 31, 2022G in the reviewed financial statements for the six-month period ending June 30, 2023G
Assets			
Non-current assets			
Property, plant and equipment	105,643,165	218,618	105,861,783
Intangible assets	41,487,454	-	41,487,454
Investments in equity	3,605,451	-	3,605,451
Total non-current assets	150,736,070	218,618	150,954,688
Current assets			
Cash and cash equivalents	23,790,842	-	23,790,842
Trade receivables	152,372,330	(798,442)	151,573,888
Advance payments and other current assets	16,137,519	(2,717,288)	13,420,231
Due from related parties	-	2,498,670	2,498,670
Inventory	100,214,552	-	100,214,552
Total current assets	292,515,243	(1,017,060)	291,498,183
Total assets	443,251,313	(798,442)	442,452,871
Equity and liabilities			
Equity			
Capital	200,000,000	-	200,000,000
Statutory reserve	25,253,411	-	25,253,411
Other reserve	(24,359,591)	-	(24,359,591)
Retained earnings	79,379,813	-	79,379,813
Total equity	280,273,633	-	280,273,633
Liabilities			
Non-current liabilities			
Loans and advances	9,506,904	-	9,506,904
Employee benefits	21,079,851	-	21,079,851
Total non-current liabilities	30,586,755	-	30,586,755
Current liabilities			
Short term loans	69,130,087	-	69,130,087
Loans and advances – current portion	6,337,936	-	6,337,936
Trade payables	37,954,257	-	37,954,257
Accruals and other current liabilities	13,282,053	(798,442)	12,483,611

(SAR)	Classification of accounts for the year ending on December 31, 2022G in the audited financial statements for the fiscal year ending on December 31, 2022G	Restatement	Classification of accounts for the year ending December 31, 2022G in the reviewed financial statements for the six-month period ending June 30, 2023G
Due to the related party	100,000	-	100,000
Zakat due	5,586,592	-	5,586,592
Total current liabilities	132,390,925	(798.442)	131,592,483
Total liabilities	162,977,680	(798.442)	162,179,238
Total equity and liabilities	443,251,313	(798.442)	442,452,871

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

6-3-3-1 Non-current assets

Table No. (180): Non-current assets as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Property, plant and equipment	105,861,783	108,234,136
Intangible assets	41,487,454	43,678,483
Investments in equity	3,605,451	1,280,287
Total non-current assets	150,954,688	153,192,906

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Property, Plant and equipment

Table No. (181): Property, plant and equipment as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Lands	10,192,286	10,192,286
Buildings	66,790,088	66,533,336
Plant	3,098,244	2,795,188
Furniture and office equipment	1,308,531	1,277,956
Motor Vehicles	2,324,673	2,466,563
Computers (Hardware)	1,319,555	1,451,322
Instruments	3,494,500	3,527,824
Assets under construction	17,333,906	19,989,661
Net book value	105,861,783	108,234,136

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Table No. (182): Additions to property, machinery and equipment as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Buildings	487,517	375,736
Plant	-	59,516
Furniture and office equipment	334,829	485,772
Motor Vehicles	22,044	437,000
Computers (Hardware)	5,410	463,073
Instruments	33,799	98,111
Assets under construction	8,693,470	4,167,303
Net book value	9,577,069	6,086,511

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Lands

The book value of the lands amounted to SAR 10.2 million, which constituted 9.5% of the net book value of property, machinery and equipment as of 30 June 2023G. The lands include 5 plots with an area exceeding 22 thousand square meters, and the main center, factories and warehouse of the Company are located on them.

It is worth noting that there is a title deed for one of the above-mentioned lands, which was mortgaged to the Saudi Investment Bank, and the balance of the debt to the bank has been paid in full and ownership of the land has been transferred to the Company (see Section No. (12-7) «**Properties owned and leased by the Company**» of this Prospectus).

Buildings

The net book value of the buildings decreased from SAR 66.8 million as at 31 December, 2022G to SAR 66.5 million as at 30 June 2023G, driven mainly by depreciation expenses for the period amounting to SAR 2.1 million, partially offset by the reclassification of SAR 1.5 million from the balance of assets under construction to the building balance is the value of a cleaning and sterilization room for the Avalon factory (2).

Plant

The net book value of plant (machinery) decreased from SAR 3.1 million as of 31 December 2022G to SAR 2.8 million as of 30 June 2023G. This is due to depreciation cost of SAR 362.6 thousand, partially offset by additions of SAR 59.5 thousand related to the Avalon plant (1).

Furniture and Office Equipment

The net book value of office furniture and equipment decreased by SAR 30.5 thousand during the period ending 30 June 2023G, mainly due to depreciation costs amounting to SAR 185.7 thousand, partially offset by an addition of SAR 155.1 thousand during the same period.

Motor Vehicles

The net book value of vehicles increased from SAR 2.3 million as of 31 December 2022G to SAR 2.5 million as of 30 June 2023G, driven mainly by the purchase of one forklift used at the Avalon plant (4).

Computers (Hardware)

The net book value of computers increased from SAR 1.3 million as of 31 December 2022G to SAR 1.5 million as of 30 June 2023G, mainly due to additions made during the year, partially offset by the depreciation charge for the period.

Instruments

The net book value of instruments increased by SAR 33.3 thousand during the period ending 30 June 2023G, driven primarily by period additions, partially offset by period depreciation charges.

Assets Under Construction

The net book value of assets under construction increased by SAR 2.7 million from SAR 17.3 million as of 31 December 2022G to SAR 20.0 million as of 30 June 2023G. This is due to additions of SAR 4.2 million, mainly related to the following:

- Adding machines to the Avalon Factory (2) and renewing some equipment in the Avalon Factory (2) at a value of SAR 2.4 million,
- Capitalized payments amounting to SAR 1.5 million for factory equipment that will be received in the second half of 2023G,
- In contrast, a value of SAR 1.5 million was reclassified from assets under construction to buildings during the period, which is the value of a cleaning and sterilization room for the Avalon Factory (2).

Intangible Assets

Table No. (183): Intangible assets as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Software and licenses	5,653,694	5,274,833
Developed products that have been registered	35,833,760	38,403,650
Total	41,487,454	43,678,483

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Table No. (184): Additions to intangible assets as of December 31, 2022 and June 30, 2023

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Software and licenses	780,858	98,547
Developed products that have been registered	10,250,108	4,707,872
Total	11,030,966	4,806,419

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Software and Licenses

The net book value of software and licenses decreased from SAR 5.6 million as of 31 December 2022G to SAR 5.2 million as of 30 June 2023G, primarily due to amortization costs during the period.

Developed Products That Have Been Registered

The balance of registered developed products increased from SAR 35.8 million as of 31 December 2022G to SAR 38.4 million as of 30 June 2023G as a result of the increase in the percentage of capitalized salaries for the R&D department and the depreciation of inventory and materials expenses in relation to the formulation of new products (generic products that have been approved Regulatory approvals and technological feasibility) amounted to SAR 4.7 million, which are mostly internal costs. This was partially offset by amortization costs during the period.

The classification of these costs as development costs is consistent with IAS 38 - Intangible Assets as the Company produces generic pharmaceutical products for which technical feasibility has been determined and regulatory approvals have been obtained.

Investments in Equity

Table No. (185): Investments in equity as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Equity investments in:		
Columbia Care Inc	2,207,390	1,280,287
Emulsion Cosmetics Limited	307,245	-
Nuha Consultancy Company	1,090,816	-
Total	3,605,451	1,280,287

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Columbia Care Inc Company

Avalon Pharma owns 783,805 shares (about 0.02% of the total number of shares) in Columbia Care Inc., a publicly traded company (listed on the NEO stock market in Canada) with headquarters in the US state of Delaware. Columbia Care Inc.'s stock prices fell from 1.02 Canadian dollars (0.75 US dollars) per share as of 31 December 2022G to 0.59 Canadian dollars (0.44 US dollars) as of 30 June 2023G, resulting in a loss in The fair value amounted to SAR 927 thousand, which was recorded as part of the Company's other comprehensive income.

Emulsion Cosmetics Limited and Noha Consultancy Company

A total loss of SAR 1.4 million was recorded on the fair value of the Company's investment in Noha Consultancy (SAR 0.3 million) and Emulsion Cosmetics Limited (SAR 1.1 million), which was recorded as part of other comprehensive income. The loss was recorded as the two investee companies faced problems related to liquidity and liquidation is underway in the coming months for both investments. Therefore, the value of the investments is zero SAR as of 30 June 2023G.

6-3-3-2 Current Assets

Table No. (186): Current assets as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Cash and cash equivalent	23,790,842	9,857,541
Trade receivables	151,573,888	148,490,971
Advance payments and other current assets	13,420,231	9,435,151
Due from related parties	2,498,670	4,149,583
Inventory	100,214,552	100,694,561
Total current assets	291,498,183	272,627,807

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Cash and Cash Equivalent

Table No. (187): Cash and cash equivalents as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Cash in hand	168,565	219,404
Cash in banks – current accounts	23,622,277	9,638,137
Total	23,790,842	9,857,541

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Cash in Hand

The value of cash on hand increased from SAR 168.6 as of 31 December 2022 to SAR 219.4 as of 30 June 2023G.

Cash in Banks – Current Accounts

Cash at banks decreased from SAR 23.6 million as of 31 December 2022 to SAR 9.6 million as of 30 June 2023G, as a result of settlements from suppliers and operating expenses in addition to the repayment of short-term loans during the period.

Trade Receivables

Table No. (188): Trade receivables as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Trade receivables	159,607,264	156,195,741
Deduct: Impairment loss on trade receivables	(8,033,376)	(7,704,770)
Total	151,573,888	148,490,971

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Table No. (189): Movement in the provision for trade receivables as of December 31, 2022 and June 30, 2023

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Opening balance	7,903,376	8,033,376
provision for the year/period	130,000	(328,606)
Closing balance	8,033,376	7,704,770

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Receivables consist mainly of receivables due to the Company from retail customers (59.1% of total receivables as of 30 June 2023G), government sector customers (37.9% of total trade receivables), and export customers (3% of total trade receivables).

The value of commercial receivables decreased from SAR 159.6 million as of 31 December 2022G to SAR 156.2 million as of 30 June 2023G . This is due to a decrease in receivables related to government sector customers by a value of SAR 12.7 million as a result of improved collection rates from Nupco, in addition to other government agencies, this was offset by an increase in receivables related to retail customers by a value of SAR 10.1 million during the period, and this is due to an increase in receivables related to two main customers coinciding with an increase in sales related to these two customers in the second quarter of 2023G with normal credit terms of 90 days.

Provision for Trade Receivables

The value of the provision for trade receivables decreased from SAR 8.0 million as of 31 December 2022G to SAR 7.7 million as of 30 June 2023G . This is due to reversing the impairment loss in the value of trade receivables for the year, amounting to SAR 328.6 thousand, in accordance with the Company's provision policy.

Advance Payments and Other Current Assets

Table No. (190): Advance payments and other current assets as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Payments to suppliers	4,737,344	3,295,542
VAT refunded	2,166,351	698,359
Prepaid insurance	2,001,052	199,570
Due from employees	987,076	935,743
Margin deposits on letters of credit and guarantees	1,428,976	1,583,258
Prepaid Residency fees*	998,680	757,104
Pre-paid employee tickets	-	668,263
Pre-paid subscription fees	407,540	409,582
Other	693,212	887,730
Total	13,420,231	9,435,151

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Payments Made To Suppliers

The management capitalized advance payments for purchases from suppliers (capital purchases) and reclassified them to the balance of assets under construction in the balance sheet when issuing the reviewed financial statements as of 30 June 2023G , and the comparative period thereof as of 31 December 2022G.

The balance of advance payments to suppliers decreased by SAR 1.4 million, that is, from SAR 4.7 million as of 31 December 2022G to SAR 3.3 million as of 30 June 2023G. This is due to (1) consumption of the advance payment to a company specializing in providing human resources, amounting to SAR 0.4 million, in addition to (2) the receipt of property, plant and equipment during the six-month period ending on 30 June 2023G , for which advance payments were made on 22 December 2022G, in the amount of SAR 0.8 million.

VAT Refunded

The recovered value-added tax decreased by SAR 1.5 million, that is, from SAR 2.2 million as of 31 December 2022G to SAR 698.4 thousand as of 30 June 2023G, as a result of the recovery of the value-added tax for the period from 31 December 2022G to 30 June 2023G which led to a decrease in the refundable value added balance as of 30 June 2023G.

Prepaid Insurance

The value of the prepaid insurance decreased from SAR 2.0 million as of 31 December 2022G to SAR 199.6 thousand as of 30 June 2023G as a result of renewing employee insurance in July, and the advance payment dating back to July of 2022G was completely amortized on 30 June 2023G.

Due From Employees

The value of receivables from employees amounted to SAR 935.7 thousand as of 30 June 2023G, and the value of employees' receivables did not change significantly between the fiscal year ending 31 December 2022G and the six-month period ending 30 June 2023G.

Margin Deposits on Letters of Credit and Guarantees

The value of margin deposits on letters of credit and letters of guarantee increased from SAR 1.4 million as at 31 December 2022G to SAR 1.6 million as at 30 June 2023G, mainly due to the issuance of new letters of credit.

Prepaid Residency Fees

The value of prepaid accommodation fees amounted to SAR 757.1 thousand as of 30 June 2023G , and did not change significantly between the fiscal year ending 31 December 2022G and the six-month period ending 30 June 2023G.

Prepaid Employee Tickets

Prepaid employee tickets amounted to SAR 668.3 thousand as of 30 June 2023G, and their value was paid to all employees during the first quarter of 2023G. Thus, the apparent balance as of 30 June 2023G is considered related to the remaining unamortized portion.

Prepaid Subscription Fees

The subscription fees paid in advance amounted to SAR 409.1 thousand as of 30 June 2023G , and their value did not change significantly between the fiscal year ending 31 December 2022G and the six-month period ending 30 June 2023G .

Other

Other receivables increased from SAR 693.2 thousand as of 31 December 2022G to SAR 887.7 thousand as of 30 June 2023G, mainly due to an increase in prepaid bank fees.

Inventory

Table No. (191): Inventory as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Raw materials	26,538,038	26,658,410
Packaging Materials	30,215,927	34,108,684
Finished products	36,883,268	33,619,534
Consumables	7,014,263	7,165,254
Spare parts inventory	1,507,428	1,619,090
Goods under manufacturing	295,472	392,562
Deduct: provision for slow moving inventory	(2,239,844)	(2,868,973)
Inventory, net	100,214,552	100,694,561

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Raw Materials

The value of raw materials increased from SAR 26.5 million as of 31 December 2022G to SAR 26.7 million as of 30 June 2023G, in preparation for meeting sales demands for the second half of the fiscal year 2023G.

Packaging Materials

The value of packaging materials increased from SAR 30.2 million as of 31 December 2022G to SAR 34.1 million as of 30 June 2023G, mainly due to meeting Avogen's orders during the second half of the fiscal year 2023G (SAR 3.5 million) in addition to other products.

Finished products

The value of finished products inventory decreased from SAR 36.9 million as of 31 December 2022G to SAR 33.6 million as of 30 June 2023G, mainly due to a decrease in finished products inventory following an increase in sales turnover in the first half of 2023G.

Consumables

The value of consumable supplies increased from SAR 7.0 million as of 31 December 2022G to SAR 7.2 million as of 30 June 2023G, coinciding with an increase in the value of raw materials during the period in preparation for meeting sales demands for the second half of the fiscal year 2023G.

Spare parts inventory

The value of spare parts inventory increased from SAR 1.5 million as of 31 December 2022G to SAR 1.6 million as of 30 June 2023G, with the aim of securing machinery supplies that had been received during the first half of the fiscal year 2023G.

Goods Under Manufacturing

The value of the inventory of goods in progress reached SAR 392.6 thousand as of 30 June 2023G .

Provision for Inventory

As of 31 December 2022G, the provision for Inventory was calculated based on 1.25% of the inventory of raw materials, finished products and consumables at the end of the period after deducting the value of the bad goods allocated to them at the end of the year.

Most of the group's products have a long-term shelf life (2 - 3 years), and management identifies on an almost weekly basis which inventory products have expired and are nearing expiration (based on reports generated by SAP ERP), which are either based on discussions with Production Managers or disposal (after obtaining approval from the Food and Drug Authority).

Management wrote off SAR 7.9 million (2.6% of total revenues) and SAR 4.7 million (3.2% of total revenues) of expired/damaged inventory in the fiscal year December 2022G and during the first half of 2023G, respectively.

The value of the inventory provision increased from SAR 2.2 million as of 31 December 2022G to SAR 2.9 million as of 30 June 2023G. This is due to the increase in the value of the provision for goods that are written off after their expiration and damaged goods.

6-3-3-3 Non-current liabilities

Table No. (192): Non-current liabilities as of December 31, 2022 and June 30, 2023

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Loans and advances	9,506,904	6,337,936
Employee benefits	21,079,851	21,425,134
Total non-current liabilities	30,586,755	27,763,070

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Loans and Advances

Table No. (193): Outstanding balances as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Current portion	6,337,936	6,337,936
Non-current portion	9,506,904	6,337,936
Total	15,844,840	12,675,872

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Table No. (194): Statement of movement in long-term loans as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Opening Balance	20,598,291	15,844,840
Paid during the period/year	(4,753,451)	(3,168,968)
Closing balance	15,844,840	12,675,872

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

A long-term loan was obtained from Banque Saudi Fransi, secured by personal guarantees provided by the group's shareholders, and the head office building, with a book value of SAR 19.9 million as of 30 June 2023G.

The long-term loan carries a commission charge at the agreed commercial rates of SIBOR + 1.75% per annum payable in thirteen equal quarterly installments starting September 2022G and repayable in full by April 2025G.

The decrease in loans is due to the repayment of the current portion of SAR 3.1 million during the six-month period ending 30 June 2023.

Employee Benefits

Table No. (195): Employee benefits as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Opening Balance	16,611,346	21,079,851
Advance payments made against benefits	2,986,187	2,986,187
Recognized in the condensed consolidated statement of profit or loss		
Current service cost	2,115,348	859,766
Interest cost	747,373	581,688
Recognized in the condensed consolidated statement of comprehensive income		
Actuarial loss	3,701,639	-
Adjustments during the year/period	(2,095,855)	(1,096,171)
Advance payments made against benefits	(2,986,187)	(2,986,187)
Closing balance	21,079,851	21,425,134

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Table No. (196): Key actuarial assumptions used to calculate significant unfunded defined benefit plan

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Economic assumptions		
Discount rate	4.50%	4.50%
Salary increase rate (for long-term service)	5.00%	5.00%
Employee turnover rates	18.45%	15.00%
Demographic assumptions		
Number of Employees	533	536
Average age of employees (years)	36.44	37.17
Average years of previous service	5.64	6.32
Retirement age	60	60

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

The employee benefits balance increased slightly from SAR 21.1 million as of 31 December 2022 to SAR 21.4 million as of 30 June 2023G, in line with the increase in the number of employees during the period.

6-3-3-4 Current Liabilities

Table No. (197): Current liabilities as of December 31, 2022 and June 30, 2023

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Short term loans	69,130,087	60,427,751
Loans and advances – current portion	6,337,936	6,337,936
Trade payables	37,954,257	35,752,004
Accruals and other current liabilities	12,483,611	14,883,476
Due to related party	100,000	50,000
Zakat due	5,586,592	3,110,247
Total current liabilities	131,592,483	120,561,414

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Short Term Loans

Table No. (198): Short-term loans as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Opening Balance	66,436,956	69,130,087
Proceeds from loans during the year/period	121,941,974	24,423,670
Paid during the year/period	(119,248,843)	(33,126,006)
Closing balance	69,130,087	60,427,751

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

The group obtained Murabaha and Musharaka financing from several local banks at agreed commercial rates. The total amount reached SAR 96.0 million as of 30 June 2023G, and all local bank loans are guaranteed by personal guarantees from the group's shareholders.

It should be noted that, as of 30 June 2023G, the total amount of short-term loans available to the company reached SAR 96.0 million, and the total value of short-term loans issued and outstanding amounted to SAR 60.4 million, while the total amount of short-term loans available but not issued amounted to SAR 35.6 million.

The balance of short-term loans decreased from SAR 69.1 million as of 31 December 2022G to SAR 60.4 million as of 30 June 2023G. This is mainly due to improved collection from Nupco, and thus the Company was able to repay the loans without the need to obtain additional facilities.

Loans and Advances - Current portion

Table No. (199): Statement of movement in long-term loans as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Opening Balance	20,598,291	15,844,840
Paid during the year/period	(4,753,451)	(3,168,968)
Closing balance	15,844,840	12,675,872

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Table No. (200): Outstanding balances as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Current portion	6,337,936	6,337,936
Non-current portion	9,506,904	6,337,936
Total	15,844,840	12,675,872

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

6-3-3-5 Contingent Liabilities

Table No. (201): Contingent Liabilities as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Letters of credit	36,063,782	29,152,690
Letters of guarantee	3,002,770	11,714,479
Total	39,066,552	40,867,169

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

The total value of letters of credit issued and outstanding from the Group's bank facilities amounted to SAR 29.2 million as of 30 June 2023G and SAR 36.0 million as of 31 December 2022G.

The total value of letters of guarantee issued and outstanding from the Group's bank facilities amounted to SAR 11.7 million as of 30 June 2023G and SAR 3.0 million as of December 2022G.

Trade Payables

Table No. (202): Trade payables as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Local suppliers	20,508,413	20,202,270
Foreign suppliers	17,445,844	15,549,734
Total	37,954,257	35,752,004
Trade payables	26,298,892	24,192,177
Non-trade payables	11,655,365	11,559,827

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Trade payables - Local Suppliers

The value of trade payables from local suppliers amounted to SAR 20.5 million as of 31 December 2022G and SAR 20.2 million as of 30 June 2023G. The value of trade payables from local suppliers did not change significantly between the fiscal year ending 31 December 2022G and 30 June 2023G.

Trade Payables - Foreign Suppliers

The trade payables of the three largest foreign suppliers accounted for 24.1% of the total trade payables related to foreign suppliers. The value of trade payables related to foreign suppliers decreased from SAR 17.4 million as of 31 December 2022G to SAR 15.5 million as of 30 June 2023G .

Accruals and Other Current Liabilities

Table No. (203): Accruals and other current liabilities as of December 31, 2022 and June 30, 2023

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Salaries and related benefits	6,561,792	4,930,425
Marketing and advertising	1,205,950	4,213,785
Remuneration for members of committees and the Board of Directors	1,150,000	1,175,000
Payments to customers	1,166,787	1,002,586
Professional fees	729,175	690,635
Due to employees	352,699	607,781
Financing cost of Murabaha-related loans	807,470	1,250,186
Other	509,738	1,013,078
Total	12,483,611	14,883,476

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Salaries and Related Benefits

The value of salary entitlements and related benefits decreased from SAR 6.6 million as of 31 December 2022G to SAR 4.9 million as of 30 June 2023G. This is due to a decline in incentives during the first half of the fiscal year 2023G compared to the end of the fiscal year 2022G. This decline is often observed as higher revenues are generated during the second half of the year compared to the first half.

Marketing and Advertising

The increase in marketing and advertising receivables by SAR 3.0 million from SAR 1.2 million as of 31 December 2022G to SAR 4.2 million as of 30 June 2023G is mainly due to the increase in promotional activities receivables of SAR 1.1 million, and marketing incentives receivables of SAR 1.0 million.

Remuneration for Members of Committees and the Board of Directors

The value of remuneration for members of the Board of Directors and Committees amounted to SAR 1.2 million in 2022G as a result of converting the Company into a Saudi joint stock company pursuant to Ministry of Commerce Resolution No. (962) dated 13/09/1443H (corresponding to 14/04/2022G).

The value of remuneration for members of the Board of Directors and committees amounted to SAR 1.2 million as of 30 June 2023G, and it includes an amount of SAR 0.2 million related to the fiscal year 2022G that was paid later in August 2023G, and an amount of SAR 0.9 million related to the remuneration due for the fiscal year 2023G until the date of 30 June.

After the approval of the Board of Directors, the annual bonus was increased from SAR 1.2 million in the fiscal year 2022G to SAR 1.9 million in the fiscal year 2023G.

Payments Made to Customers

The value of payments made to customers decreased from SAR 1.2 million as of 31 December 2022G to SAR 1.0 million as of 30 June 2023G, mainly due to credit balances related to refunds from certain customers.

Professional Fees

Professional fees accruals relate to consulting expenses, zakat consulting expenses, legal consulting expenses, and audit expenses, and the balance was not subject to a material change from 31 December 2022G to 30 June 2023G.

Due to Employees

Payments from employees relate to expenses attributable to employees who have resigned from the Group. The value of this account did not change significantly during the period.

Financing Cost of Murabaha-Related Loans

Financing cost accruals for Murabaha-related loans increased by SAR 0.8 million as of 31 December 2022G to SAR 1.3 million as of 30 June 2023G, as a result of the increase in interest due on short-term loans of SAR 0.4 million associated with the Saudi French Bank loan, which was due in July 2023G.

Other

Other receivables increased by SAR 0.5 million from 31 December 2022G to 30 June 2023G, mainly due to an increase in accrued building maintenance expenses by SAR 0.2 million, and electricity by SAR 0.2 million, in addition to internet and telephone expenses.

Due from Related Parties

Table No. (204): Due from related parties as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Shareholders	1,329,788	3,930,515
Mr. Ahmad Shafer Ahmad Al-Tabbaa	9,409,814	-
Emulsion Cosmetics Limited	219,068	219,068
Total	2,498,670	3,149,583

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Shareholders

The Company paid the costs of the initial public offering on behalf of all shareholders according to their ownership percentages.

Accruals for initial public offering costs increased by SAR 1.3 million during the year ending 31 December 2022G to SAR 3.9 million during the six-month period ending 30 June 2023G. This increase is due to the additional underwriting cost paid by the Company.

Mr. Ahmed Shafer Ahmed Al-Tabbaa

The receivables include payments made to the Chairman of the Board of Directors, Mr. Ahmed Shafer Ahmed Al-Tabbaa, for travel expenses amounting to SAR 0.9 million during the year ending 31 December 2022G. There were no expenses paid on behalf of Mr. Ahmed Shafer Ahmed Al-Tabbaa during the six-month period ending on 30 June 2023G.

Emulsion Cosmetics Limited

The receivables include payments made to Emulsion Cosmetics Limited related to future orders amounting to SAR 0.2 million as of 31 December 2022G and as of 30 June 2023G.

Due to the Related Party

Table No. (205): Due to a related party as of December 31, 2022 and June 30, 2023

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Faisal Shafer Ahmad Al-Tabbaa	100,000	50,000

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Shareholder Mr. Faisal Shafer Ahmed Al-Tabbaa

Lawyer Mr. Faisal Shafer Ahmed Al-Tabbaa is one of the Company's shareholders and owns 6.4% of Avalon Pharma before the offering.

It is worth mentioning that on 01/01/2023G, the Company concluded a legal consultation agreement with the lawyer, Mr. Faisal Shafer Ahmed Al-Tabbaa, one of the Company's shareholders, under which he provides legal advice to the Company and represents it regarding its legal work. The annual fees were set at (SAR 300,000) three hundred thousand, and the agreement is open-ended and subject to termination by both parties (see Section No. (12-6-1) «**Related Party Contracts and Transactions**» of this Prospectus).

6-3-3-6 Equity

Table No. (206): Equity as of December 31, 2022G and June 30, 2023G

(SAR)	As of December 31, 2022G (Audited)	As of June 30, 2023G (Reviewed)
Capital	200,000,000	200,000,000
Statutory Reserve	25,253,411	25,253,411
Other reserve	(24,359,591)	(26,684,755)
Retained earnings	79,379,813	78,927,573
Total equity	280,273,633	277,496,229

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023G

Capital

The capital balance amounted to SAR 200.0 million as of 31 December 2022G and as of 30 June 2023G .

Statutory Reserve

The balance of the statutory reserve amounted to SAR 25.3 million as of 31 December 2022G and as of 30 June 2023G.

Other Reserve

The other reserve balance increased from SAR 24.4 million as of 31 December 2022G to SAR 26.7 million as of 30 June 2023G. This is due to the increase in fair value losses resulting from the investment in Columbia Care Inc., amounting to SAR 2.3 million.

Retained Earnings

The balance of retained earnings decreased from SAR 79.4 million as of 31 December 2022G to SAR 78.9 million as of 30 June 2023G, mainly due to dividends paid of SAR 18.0 million, offset by an increase in net profit for the period of SAR 17.6 million.

6-3-4 Statement of Cash Flows for the Six-Month Periods Ending on 30 June 2022G and 2023G

Table No. (207): Statement of cash flows for the six-month periods ending on June 30, 2022G and 2023G

(SAR)	Six-month period ending June 30	
	2022G (Reviewed)	2023G (Reviewed)
Cash flows from operating activities:		
Profit for the year before Zakat	20,551,865	20,547,760
Adjustments to reconcile net profit with net cash flows generated from operating activities:		
Depreciation	3,306,233	3,708,527
Amortization	1,655,472	2,161,629
Provision for employee benefits	924,717	1,441,454
Financing cost related to Murabaha	1,988,390	2,200,927
Provision for expiring and obsolete inventory	3,984,323	5,361,739
Loss on disposal of intangible assets	-	453,761
Reversal of impairment in trade receivables	-	(328,606)
(Profit)/loss on disposal of property, plant and equipment	56,310	(739)
Changes in operating assets and liabilities:		
Trade receivables	(4,801,640)	3,411,523
Advance payments and other current assets	(3,999,243)	3,985,080
Inventory	(18,580,694)	(5,841,748)
Trade payables	4,630,589	(2,202,253)
The amount owed to the related party	-	100,000
Accruals and other current liabilities	4,017,456	2,007,149
Cash generated from operating activities	13,733,778	36,806,203
Zakat paid	(4,775,501)	(5,476,345)
Paid employee benefits	(994,069)	(1,096,171)
Net cash generated from operating activities	7,964,208	30,233,687
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,153,830)	(6,086,511)
Purchasing intangible assets	(3,750,868)	(4,806,419)
Proceeds from disposal of property, plant and equipment	27,778	6,370
Net cash used in investing activities	(6,876,920)	(10,886,560)

(SAR)	Six-month period ending June 30	
	2022G (Reviewed)	2023G (Reviewed)
Cash flows from financing activities		
Proceeds from short-term loans during the period	66,064,258	24,423,670
Repayments of short-term loans during the period	(55,698,466)	(33,126,006)
Repayment of long-term loans during the period	-	(3,168,968)
Dividends paid	(16,040,454)	(18,000,000)
Financing cost paid related to Murabaha	(1,988,390)	(1,758,211)
Due from shareholders	(554,329)	(1,650,913)
Net cash used in financing activities	(8,217,381)	(33,280,428)
Net changes in cash and cash equivalents	(7,130,093)	(13,933,301)
Cash and cash equivalents at the beginning of the year	19,035,572	23,790,842
Cash and cash equivalents at the end of the year	11,905,479	9,857,541

Source: Reviewed consolidated financial statements for the six-month period ending June 30, 2023

Net Cash Generated from Operating Activities

Net cash generated from operating activities increased from SAR 8.0 million during the six-month period ending on 30 June 2022G to SAR 30.2 million during the six-month period ending on 30 June 2023G, due to: 1) an increase in changes in the value of receivables. Receivable from (SAR -4.8 million) to (SAR +3.4 million), 2) Increase in the value of changes in advance payments and other current assets from (SAR -4.0 million) to (SAR +4.0 million) in addition to 3) a decrease in changes in the value of inventory from (SAR -18.6 million) to (SAR -5.8 million).

Net Cash Used in Investing Activities

Net cash used in investment activities increased from SAR 6.9 million during the six-month period ending on 30 June 2022G to SAR 10.9 million during the six-month period ending on 30 June 2023G, as a result of the purchase of property, machinery and equipment worth (SAR 6,1 million as of 30 June 2023G, including SAR 4.2 million related to capital work in progress), additions to intangible assets amounting to (SAR 4.8 million for the six-month period ending on 30 June 2023G).

Net Cash Used in Financing Activities

Net cash used in financing activities increased from SAR 8.2 million during the six-month period ending 30 June 2022G to SAR 33.3 million during the six-month period ending 30 June 2023G, as a result of a decrease in proceeds from short-term loans of SAR 42.0 million, in addition to the increase in dividends paid during the period by SAR 2.0 million, and this was offset by a decrease in repayments from short-term loans amounting to SAR 22.6 million during the same period.



07

Dividends Policy

7- Dividends Policy

Pursuant to Article (107) one hundred and seven of the Companies Law, all rights and obligations relating to shares are equally established for each shareholder, which includes in particular the right to obtain a share of the profits to be distributed. The Board of Directors recommends the distribution of any profits in its annual report before they are approved by shareholders at the General Assembly meeting. However, there are no guarantees of an actual distribution of profits, and any decision to distribute profits depends on a number of factors, including the Company's previous and expected profits, cash flows, financing and capital requirements, market data and economic factors in general, Zakat, and other factors that the Board of Directors considers its importance as well as other legal and regulatory considerations. The Company's expectations regarding these factors are subject to many assumptions, risks and uncertainties that may be beyond the Company's control (see Section (2-3-4) «**Risks Related to Non-Distribution of Dividends**» of this Prospectus).

The Company intends to distribute annual dividends to its shareholders with the aim of enhancing the value of their investments commensurate with the Company's profits, its financial position, capital expenses, investment requirements, dividends distribution restrictions under financing and debt agreements, results of the Company's activities, the Company's current and future cash needs, expansion plans, and other factors including analysis of investment opportunities, Company's profit reinvestment requirements, cash and capital requirements, market condition, general economic factors, business expectations and the impact of any such distributions on any legal and regulatory considerations. In addition, investors wishing to invest in the Offering shares must be aware that the Dividends Policy may change from time to time.

Shares give their holders the right to receive any profits announced by the Company as of the date of this Prospectus and the following fiscal years. Although the Company intends to distribute annual profits to its shareholders, it does not give any guarantees that it will distribute profits for any year in the future, nor does it guarantee the value of those profits that can be distributed in any specific year. Profits will be distributed in Saudi riyals, and the dividend distribution process is subject to certain restrictions in accordance with the Company's bylaws, as follows:

Article (35) of the Company's bylaws stipulates that the Ordinary General Assembly - when determining the share of shares in net profits - may decide to form reserves, to the extent that achieves the interest of the Company or ensures the distribution of fixed profits - as much as possible - to shareholders. The aforementioned assembly may also deduct amounts from the net profits for social purposes to the Company's employees.

Article (36) of the Company's bylaws stipulates that the shareholder is entitled to his share of profits in accordance with the General Assembly's decision issued in this regard. Such a decision shall indicate the due date and distribution date. The entitlement to dividends is to the shareholders registered in the shareholders' registers at the end of the day specified for entitlement. The Board of Directors must implement the General Assembly's decision regarding the distribution of dividends to shareholders. The table below shows the dividends during the fiscal years ending on December 31, 2020, 2021, and 2022, and the six-month period ending on June 30, 2023G:

Table No. (208): Dividend distributions during the fiscal years ending on December 31, 2020, 2021, and 2022G, and the six-month period ending on June 30, 2023G.

	Fiscal year ended on 31 December 2020G (SAR)	Fiscal year ended on 31 December 2021G (SAR)	Fiscal year ended on 31 December 2022G (SAR)	Six-month period ending on June 30, 2023 (SAR)
Net profit for the year/period	72,812,893	66,283,077	59,451,749	17,547,760
Earnings per share	3.64	3.31	2.97	0.88
Declared dividends	36,260,000	37,200,000	36,347,454	18,000,000
Dividends paid	36,260,000 *	37,200,000 **	36,347,454 ***	18,000,000 ****
Total retained earnings	173,137,616	202,220,693	79,379,813	78,927,573
Ratio of declared profits to net profit for the year/period	49.80%	56.12%	61.14%	102.58%

Source: Avalon Pharma Company

* On 16/02/1442H (corresponding to 30/01/2021G), the partners approved the distribution of dividends in the amount of (36,260,000) thirty-six million two hundred and sixty thousand Saudi riyals for the fiscal year ending on December 31, 2020G.

** On 26/06/1443H (corresponding to 30/01/2022G), the partners approved the distribution of dividends in the amount of (37,200,000) thirty-seven million and two hundred thousand Saudi riyals for the fiscal year ending on December 31, 2021G.

*** The Ordinary General Assembly, which was held on 08/03/1444H (corresponding to 04/10/2022G), approved the distribution of interim dividends amounting to (16,040,454) sixteen million and forty thousand and four hundred and fifty-four Saudi riyals for the six-month period ending on June 30, 2022G. The Ordinary General Assembly, which was held on 20/10/1444H (corresponding to 10/05/2023G), also approved the distribution of interim dividends amounting (20,307,000) twenty million, three hundred and seven thousand Saudi riyals for the six-month period ending on December 31, 2022G.

**** In its meeting held on 25/10/1444H (corresponding to 15/05/2023G), the Board of Directors approved the distribution of interim dividends amounting to (18,000,000) eighteen million Saudi riyals for the six-month period ending on June 30, 2023G, based on approval of the Ordinary General Assembly held on 20/10/1444H (corresponding to 10/05/2023G) to distribute interim dividends.



08

Use of the Offering Proceeds

8- Use of the Offering Proceeds

The anticipated amount of the total Offering Proceeds is (SAR 492,000,000) four hundred ninety two million Saudi riyals, of which approximately (30,000,000) thirty million Saudi riyals will be paid as Offering expenses, which include the fees of the Financial Advisor, Bookrunner, Lead Manager, Underwriter, Legal Advisor, Due Diligence Advisor, Market Study Advisor, Receiving Agents, Auditor, as well as the expenses of opening an Escrow Account, the costs of marketing and printing, and other expenses and costs related to the Offering.

The net Offering Proceeds, estimated at approximately (SAR 462,000,000) four hundred sixty two million Saudi riyals, will be distributed to the Selling Shareholders, each according to his ownership percentage in the Company's capital. The Company will not receive any amount from the net Offering Proceeds, and the Selling Shareholders will bear all fees, expenses and costs related to the Offering.



09

Company's Capitalization Indebtedness

9- Company's Capitalization Indebtedness

Existing shareholders own all of the Company's shares before the Offering. After completing the Offering, current shareholders will own 70% of the Company's shares.

The following table shows the Company's capitalization as it appears in the financial statements for the fiscal years ending on December 31, 2020G, 2021G, and 2022G, and the six-month period ending on June 30, 2023G. Note that the following table must be read and interpreted in conjunction with the relevant financial statements, including the notes attached thereto and contained in Section (19) «Financial Statements and Auditor's Report» of this Prospectus.

Table No. (209): Capitalization of the Company's capital and indebtedness for the fiscal years ending on December 31, 2020G, 2021G, and 2022G, and the six-month period ending on June 30, 2023G.

	Fiscal year ended on 31 December 2020G (SAR)	Fiscal year ended on 31 December 2021G (SAR)	Fiscal year ended on 31 December 2022G (SAR)	Six-month period ending on June 30, 2023 (SAR)
Total loans	62,651,241	87,035,247	84,974,927	73,103,623
Shareholders' equity				
Capital	60,000,000	60,000,000	200,000,000	200,000,000
Statutory reserve	19,308,236	19,308,236	25,253,411	25,253,411
Other reserve	(16,987)	(14,447,828)	(24,359,591)	(26,684,755)
Retained earnings	173,137,616	202,220,693	79,379,813	78,927,573
Total shareholders' equity	252,428,865	267,081,101	280,273,633	277,496,229
Total Capitalization (Total Loans + Total Equity)	315,080,106	354,116,348	365,248,560	350,599,852
Total Loans/Total Capitalization	19.88%	24.58%	23.26%	20.85%

Source: Audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022, and the consolidated reviewed financial statements for the six-month period ending on June 30, 2023

Members of the Company's board of directors Declare that:

- None of the shares of the Company or its subsidiaries are subject to any option rights.
- The Company or its subsidiaries do not have any debt instruments as of the date of this Prospectus.
- The Company's cash balance and cash flows are sufficient to cover its expected cash needs for working capital and capital expenditures for a period of at least (12) twelve months after the date of this Prospectus.



10

Experts' Statements

10- Experts' Statements

All advisors and auditors whose names are mentioned on pages (vii) and (viii) have provided their written consent to the use of their names, addresses and logos and to publish their statements in this Prospectus in the form as stated herein, and none of them has withdrawn their consent until the date of this Prospectus. None of the consultants and their employees who are part of the work team responsible for providing services to the Company or their relatives owned any shares in the Company, and none of them has an interest of any kind in the Company or any of its subsidiaries as of the date of this Prospectus, which may affect their independence.



11

Declarations

11- Declarations

The members of the Company's Board of Directors Declare that:

1. There has not been any interruption in the business of the Issuer or any of the Issuer's subsidiaries which may have or has had a significant effect on the financial position in the last (12) months.
2. No commissions, discounts, brokerages or other non-cash compensation have been granted by the issuer or any of its subsidiaries within the three years immediately preceding the application for registration and offer of securities that are the subject of this Prospectus in connection with the issue or offer of any shares.
3. There was no material negative change in the financial and commercial position of the issuer or any of its subsidiaries during the three years immediately preceding the date of submitting the registration application and offering the shares subject to this prospectus.
4. Except as disclosed in Section (5-5) «**Board of Directors**», of this Prospectus, neither the Directors nor any of their relatives have any Shares or interest of any kind in the Issuer or any of its subsidiaries.
5. The Issuer - individually or jointly with its subsidiaries- has a working capital sufficient for a period of at least (12) months immediately following the date of publication of the Prospectus.
6. There is no intention to make any fundamental change in the nature of the activity of the Company and its subsidiaries that could affect or have significantly affected the financial position of the Company during the last (12) twelve-month period.
7. Other than what is stated in Section (2-1-35) «**Risks Related to Lawsuits and Fines**» and Section (12-12) «**Litigation**» of this Prospectus, the Company is not a party to any disputes, lawsuits, cases or investigation procedures that could have a material impact on the Company's operations or financial condition.
8. As of the date of this Prospectus, the members of the Board of Directors are not parties to any ongoing disputes, lawsuits, cases or investigation procedures that could have a material impact on the Company's operations or financial position.
9. None of the Company's Board members, senior executives, or Board Secretary were appointed to a managerial or supervisory position in any Company that declared bankruptcy or insolvency in the five (5) years preceding the date of this Prospectus.
10. No member of the Company's Board of Directors or any of the Company's executive management members or the secretary of the Board of Directors has been declared bankrupt, and they have not been subject to any bankruptcy procedures until the date of this Prospectus.
11. As of the date of this Prospectus, none of the members of the Board of Directors have participated in any activities similar to or competing with the Company, and the members of the Board of Directors pledge to adhere to this regulatory requirement in the future in accordance with Article Seventy-Two of the Companies Law and Part Six of Chapter Three of the Corporate Governance Regulations.
12. The Company has obtained approval of the General Assembly for all transactions with related parties, and other than what was mentioned in Section (12-6-1) «**Related Party Contracts and Transactions**», none of the members of the Board of Directors or any of the senior executives or the Secretary of the Board or any of their relatives or affiliates has any interest in any existing contracts or arrangements, whether written or oral, or contracts or arrangements under study or to be concluded with the Company until the date of this Prospectus.
13. As of the date of this Prospectus, other than what was stated in Section No. (12-6-1) «**Related Party Contracts and Transactions**» of this Prospectus, there are no contracts or material transactions with related parties that have a significant impact on the Company's business, and none of the Company and its subsidiaries have any intention of enter into any new agreements with related parties.
14. All contracts and agreements and all transactions with related parties described in Section (12-6-1) «**Related Party Contracts and Transactions**» of this Prospectus, including determining the financial consideration for the contract, have been carried out in a regular and legal manner and on the basis of proper and fair business transactions such as those conducted with other third parties.
15. Other than what was stated in Section No. (12-6-1) «**Related Party Contracts and Transactions**» of this Prospectus, there is no conflict of interest related to members of the Board of Directors regarding contracts or transactions concluded with the Company.

16. All transactions with related parties will be conducted on a commercial basis, and all business and contracts with related parties will be voted on at the Board of Directors meetings and - if the law requires this - the General Assembly of the Company, with the Board of Directors member abstaining from voting on decisions related to business and contracts, that is done for the Company's account and in which he has a direct or indirect interest, whether in the Board of Directors or in the General Assembly, in accordance with Article Seventy-One of the Companies Law and Part Six of Chapter Three of the Corporate Governance Regulations.
17. The Directors undertake to:
 - Record all of resolutions and deliberations of the Board in the form of written meeting minutes signed by the Directors;
 - Disclose the details of any Related Party transactions in accordance with the Companies Law and the CGRs;
18. Members of the Board of Directors will not participate in voting on decisions related to business and contracts in which they have a direct or indirect interest.
19. No member of the Board of Directors may have a direct or indirect interest in the business and contracts carried out on behalf of the Company except with a permission of the General Assembly.
20. Members of the Board of Directors shall notify the Board of their direct or indirect personal interests in the business and contracts conducted on behalf of the Company, provided that this is recorded in the minutes of the Board of Directors meeting.
21. None of the members of the Board of Directors or senior executives shall have the the right to recommend a contract or proposal in which they have an interest.
22. None of the members of the Board of Directors and the CEO shall have the right to vote on a contract or proposal in which he has an interest.
23. None of the members of the Board of Directors and the CEO shall have the right to vote on the fees and remunerations granted to them.
24. It is not permissible for the members of the Board of Directors or any of the senior executives to borrow from the Company or its subsidiaries, nor for the Company to guarantee any loan obtained by any of the members of the Board of Directors.
25. Commitment to work in accordance with Articles twenty-seven (27), seventy-two (72), seventy-three (73), seventy-four (74) and seventy-five (75) of the Companies Law, and Article forty-four (44) of the Corporate Governance Regulations.
26. Other than what was stated in Section No. (2) «**Risk Factors**» of this Prospectus, the members of the Board of Directors are not aware of any other material risks that could affect the decision of potential investors to invest in the Company's shares.
27. Other than what was stated in Section No. (2-1-22) «**Risks related to non-issuance or non-renewal of licenses, permits and regulatory certificates**» and Section No. (12-5) «**Certificates, approvals and licenses obtained by the Company**» of this Prospectus, the Company and its subsidiaries have all basic licenses and approvals required to carry out their activities.
28. The Company is compliant with all provisions of the Companies Law until the date of this Prospectus.
29. They have established procedures, controls and systems that will enable the Company to fulfill the requirements of the relevant laws, regulations and instructions, including the Companies Law, the Capital Market Law and its executive regulations, the Rules on the Offer of Securities and Continuing Obligations and the Listing Rules.
30. The Company's shares have never been listed on any exchange, whether inside or outside the Kingdom, before this Offering.
31. The listing does not violate the relevant laws and regulations of the Kingdom.
32. The listing does not prejudice any contracts or agreements to which the issuer is a party.
33. All necessary approvals have been obtained to offer the Company's shares on the Exchange and to be a joint stock company.
34. The issuer has submitted and will submit to the Authority all documents required under the Capital Market Law and the Rules on the Offer of Securities and Continuing Obligations.
35. The Company is able to prepare the required reports at the specified times according to the implementing regulations issued by the Authority.

36. All contracts and agreements that the Company believes are important or material or that could affect investors' decisions to invest in the Offering Shares have been disclosed, and there are no other material contracts and agreements that have not been disclosed.
37. Other than what was stated in Section (2-1-23) «**Risks related to potential legal Zakat entitlements and additional claims**» of this Prospectus, as of the date of this Prospectus, there are no objections or disagreements with the Zakat, Tax and Customs Authority.
38. This Prospectus includes all the information required to be included under the Rules on the Offer of Securities and Continuing Obligations, and there are no other facts that could affect the application for registration and offering of securities that are not included in this Prospectus.
39. All employees of the Company and its subsidiaries are under its sponsorship.
40. The internal control, accounting and information technology systems are sufficient and appropriate and have been prepared on sound foundations. The members of the Board of Directors conduct an annual review of the internal control procedures of the Company and its subsidiaries.
41. They have established procedures, controls and systems that will enable the Company and its subsidiaries to fulfill the requirements of the relevant laws, regulations and instructions, including the Companies Law, the Capital Market Law and its Implementing Regulations, the Rules on the Offer of Securities and Continuing Obligations and the Listing Rules.
42. The Company, based on its necessary systems and policies, prepares the interim and annual consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and on the dates specified in accordance with the Rules on the Offer of Securities and Continuing Obligations. The Company also relies on its own necessary systems and policies in order to prepare all other financial reports, and all non-financial reports, as required by the Rules on the Offer of Securities and Continuing Obligations and within the dates specified in these rules.
43. The audited consolidated financial statements for the fiscal years ending on December 31, 2020G, 2021G, and 2022G, and the reviewed consolidated financial statements for the six-month period ending on June 30, 2023G, were prepared in accordance with the International Financial Reporting Standards (IFRS) and other standards and issuances approved by the Saudi Organization for Chartered and Professional Accountants (SOCPA).
44. The legal and beneficial ownership, direct and indirect, of the shares in the Company as of the date of this Prospectus belongs to the persons whose names are mentioned in Section No. (5-1) «**The Company's ownership structure before and after the Offering**» of this Prospectus.
45. All increases in the Company's capital do not conflict with the laws and regulations in force in the Kingdom.
46. The Company and its subsidiaries do not own any securities (contractual or otherwise) or any assets whose value is subject to fluctuations, which negatively and materially affects the assessment of the financial condition.
47. As of the date of this Prospectus, there are no stock programs for the Company's employees that would involve employees in the Company's capital, and there are no other similar arrangements in place.
48. There is no option right on the Company's shares or the shares of its subsidiaries.
49. The Company's insurance policies provide insurance coverage with sufficient limits for the Company to carry out its business, and the Company renews insurance policies and contracts periodically to ensure continuous insurance coverage. The Company also took appropriate security measures in accordance with established practices in this sector
50. Other than what was stated in Section (12-8) «**Loans and Facilities**» of this Prospectus, the Company or its subsidiaries did not issue any debt instruments, or obtain any term loans or any due loans or debts (including overdrafts from banks, financial obligations under acceptance, acceptance credits or purchase commitments). And no guarantees, mortgages, rights or financial encumbrances have been issued on any of the assets of the Company or its subsidiaries.
51. The Company is committed to all terms and conditions under the agreements concluded with donors for all loans, facilities and financing.
52. As of the date of this Prospectus, there is no breach of the contractual terms and conditions under the agreements with donors for all loans, facilities and financing mentioned in Section (12-8) «**Loans and Facilities**» of this Prospectus, and the Company is compliant with all such terms and conditions.
53. Other than what is stated in Section (12-8) «**Loans and Facilities**» of this Prospectus, there are no mortgages, rights or encumbrances on the Company's property as of the date of this Prospectus.

54. All contracts and agreements that the Company believes are important or material or that could affect investors' decisions to invest in the Offer Shares have been disclosed, and there are no other material contracts and agreements that have not been disclosed.
55. All terms and conditions that could affect investors' decisions to invest in the Offer Shares have been disclosed.
56. Other than what is stated in Section (2) «**Risk Factors**» and Section (6-1-2) «**Main Factors Affecting the Company's Operations**» of this Prospectus, the Company is not aware of any information related to any governmental, economic, financial or monetary, political or any other factors that have affected or could materially affect (directly or indirectly) its operations.
57. Other than what is stated in Section (2) «**Risk Factors**» of this Prospectus, the Company and its subsidiaries are not aware of any seasonal factors or economic cycles related to the activity that may have an impact on the Company's business or financial condition.
58. The statistical information used in Section (3) «**Overview of the Market and Sector**» of this Prospectus, which was obtained from external sources, represents the latest information available from its relevant source.
59. All Board decisions and deliberations shall be recorded in the form of written meeting minutes to be signed by Board members.
60. In addition to the declarations referred to above, the members of the Board of Directors declare the following:
 - The information and data contained in this Prospectus and obtained from other parties, including the information obtained from the market study report prepared by the Market Study Advisor, can be relied upon and there is no reason for the Company to believe that this information is materially inaccurate.
 - This Prospectus includes all the information required to be included under the Rules the Offer of Securities and Continuing Obligations, and there are no other facts that could affect the application for registration and offering of securities that are not included in this Prospectus.
 - It has submitted and will submit to the Authority all the documents required under the Capital Market Law and the Rules on the Offer of Securities and Continuing Obligations.
 - The internal control systems and controls have been prepared by the Company on sound foundations, as a written policy has been developed that regulates conflicts of interest and addresses potential conflicts, which include misuse of the Company's assets and misconduct resulting from dealings with related persons. In addition, the Company has ensured the soundness of the financial and operational systems and the application of appropriate control systems to manage risks in accordance with the requirements of Chapter Five of the Corporate Governance Regulations. Board members also annually review the Company's internal control procedures.
 - The internal control, accounting and information technology systems are sufficient and sound.



12

Legal Information

12- Legal Information

12-1 The Company

Middle East Pharmaceutical Industries Company «Avalon Pharma» is a Saudi joint stock company under Commercial Registration No. (1010150538) issued by the city of Riyadh on 02/04/1419H (corresponding to 26/07/1998G). The Company's current capital is (200,000,000) two hundred million Saudi riyals, divided into (20,000,000) twenty million fully paid ordinary shares, with a nominal value of (10) ten Saudi riyals per share, all of which are ordinary shares of one class.

The Company's activity, according to its C/R, is the manufacture of disinfectants and sterilizers for medical devices and products, the manufacture of disinfectants and sterilizers for non-medical use, the manufacture of cosmetics, and the manufacture of pharmaceutical preparations for human use. The Company's main head office is located in Riyadh at the following address:

Middle East Pharmaceutical Industries Company

Second Industrial City, Riyadh

P.O. Box 3800 Riyadh 14331

Kingdom of Saudi Arabia

Tel: +966 11 2653948

Fax: +966 11 2654723

Website: www.avalonpharmaceutical.com

Email: info@avalon.com.sa

12-2 Share Ownership Structure

The following table shows the Company's shareholder structure before and after the Offering:

Table No. (210): The Company's ownership structure before and after the Offering

Shareholders	Pre-Offering				Post Offering			
	No. of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership (%)	No. of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership (%)
1 Tabbaa National Holding Company	12,050,000	120,500,000	60.2500%	-	8,435,000	84,350,000	42.1750%	-
2 Talal Yousuf Mahmoud Zahid	4,200,000	42,000,000	21.0000%	-	2,940,000	29,400,000	14.7000%	-
3 Ali Shafer Ahmad Al-Tabbaa	1,320,000	13,200,000	6.6000%	-	924,000	9,240,000	4.6200%	-
4 Faisal Shafer Ahmad Al-Tabbaa	1,280,000	12,800,000	6.4000%	-	896,000	8,960,000	4.4800%	-
5 Durrat Al-Wadaa Investment Company	500,000	5,000,000	2.5000%	-	350,000	3,500,000	1.7500%	-
6 Yousuf Talal Yousuf Zahid	400,000	4,000,000	2.0000%	-	280,000	2,800,000	1.4000%	-
7 Durrat Al-Faisal Investment Company	250,000	2,500,000	1.2500%	-	175,000	1,750,000	0.8750%	-
Public	-	-	-	-	6,000,000	60,000,000	30.0000%	-
Total	20,000,000	200,000,000	100.0000%	-	20,000,000	200,000,000	100.0000%	-

Source: Avalon Pharma Company

12-3 Company Branches

The Company has a number of branches as follows:

Table No. (211): Company branches

	Name	Registration number	Address	Registration history	Registration expiry date
1	Middle East Pharmaceutical Industries Company	1010274622	Riyadh Second Industrial City	16/10/1430H (corresponding to 05/10/2009G)	14/06/1445 H (corresponding to 27/12/2023G)
2	Middle East Pharmaceutical Industries Company	1010560224	Riyadh Second Industrial City	16/06/1440H (corresponding to 21/02/2019G)	16/06/1445H (corresponding to 29/12/2023G)
3	Middle East Distribution Company	1010175025	Riyadh Second Industrial City	11/01/1423H (corresponding to 25/03/2002G)	25/12/1445H (corresponding to 01/07/2024G)
4	Middle East Pharmaceutical Industries Company	1010728546	Riyadh Second Industrial City	03/12/1442H (corresponding to 13/07/2021G)	03/12/1445H (corresponding to 06/09/2024G)
5	Middle East Pharmaceutical Industries Company	1010394325	Riyadh Second Industrial City Riyadh	01/10/1435H (corresponding to 11/13/2013G)	14/06/1445H (corresponding to 27/12/2023G)
6	Middle East Pharmaceutical Industries Company	1010653238	Riyadh Al-Masha'el District, Azhair Street	25/01/1442H (corresponding to 13/09/2020G)	25/01/1446H (corresponding to 31/07/2024G)
7	Middle East Distribution Company	4030278683	Jeddah, Madinah road	17/01/1436H (corresponding to 10/11/2014G)	17/01/1446H (corresponding to 23/07/2024G)
8	Middle East Distribution Company	4030161826	Jeddah Al Nakheel district	23/04/1427H (corresponding to 21/05/2006G)	23/04/1445H (corresponding to 07/11/2023G)
9	Middle East Distribution Company	2050061104	Dammam Khalidiya Warehouse Complex No. (5)	27/06/1429H (corresponding to 01/07/2008G)	26/06/1445H (corresponding to 08/01/2024G)
10	Middle East Pharmaceutical Industries Company	2050168074	Dammam King Faisal Road, Al- Tubaishi District	23/07/1444H (corresponding to 14/02/2023G)	23/07/1445H (corresponding to 04/02/2024G)
11	Middle East Pharmaceutical Industries Co., Ltd. (a foreign company branch)	100636	Dubai United Arab Emirates	15/11/1443H (corresponding to 14/06/2022G)	06/11/1445H (corresponding to 14/05/2024G)

Source: Avalon Pharma Company

12-4 Subsidiaries and investments

The Company established a number of companies outside the Kingdom, and also invested in other companies according to the following:

Table No. (212): Subsidiaries and investments in which the company owns shares

Name	Head Office	Legal entity	Percentage of direct ownership and number of shares owned	Percentage of indirect ownership and number of shares owned
Subsidiaries				
1 Avalon Pharma UK Holdings Limited	UK	LLC	100% (1) One share	-
2 Avalon Cosmetics Limited ¹	UK	LLC	-	100% (1) One share
3 Avalon Pharma Limited ²	UK	LLC	-	100% (1) One share
4 Avalon Nutrition Limited ³	UK	LLC	-	100% (1) One share
Investments				
1 Emulsion Cosmetics Limited ⁴	UK	LLC	-	15% (28,572) shares
2 Nuha Consultancy Company ⁵	British Virgin Islands	LLC	-	15% (8,824) shares
3 Columbia Care Inc	USA	Joint Stock	0.02% (783,805) shares	-

Source: Avalon Pharma Company

- Avalon Pharma indirectly owns 100% of Avalon Cosmetics Limited, as it is wholly owned by Avalon Pharma UK Holdings Limited (a 100% owned subsidiary of Avalon Pharma).
- Avalon Pharma indirectly owns 100% of Avalon Pharma Limited, as it is wholly owned by Avalon Pharma UK Holdings Limited (a 100% owned subsidiary of Avalon Pharma).
- Avalon Pharma indirectly owns 100% of Avalon Nutrition Limited, as it is wholly owned by Avalon Pharma UK Holdings Limited (a 100% owned subsidiary of Avalon Pharma).
- Avalon Pharma indirectly owns 15% of Emulsion Cosmetics Limited, as it is 15% owned by Avalon Cosmetics Limited (100% indirectly owned through its subsidiary Avalon Cosmetics Limited).
- Avalon Pharma indirectly owns 15% of Noha Consultancy, as it is 15% owned by Avalon Cosmetics Limited (100% indirectly owned through its subsidiary Avalon Cosmetics Limited).

12-5 Certificates, approvals and licenses obtained by the Company

The following table shows details of the commercial registration certificates obtained by the Company:

Table No. (213): Details of the commercial registration certificates obtained by the company

	Name	C/R No.	Address	C/R Date	C/R Expiry
1	Middle East Pharmaceutical Industries Company - joint stock	1010150538	Riyadh	02/04/1419H (corresponding to 26/07/1998G)	14/06/1445H (corresponding to 27/12/2023G)
2	Middle East Pharmaceutical Industries Company - Subsidiary (Middle East Pharmaceutical Industries Company)	1010274622	Riyadh Second Industrial City	16/10/1430H (corresponding to 05/10/2009G)	14/06/1445H (corresponding to 27/12/2023G)
3	Middle East Pharmaceutical Industries Company - Subsidiary (Middle East Pharmaceutical Industries Company)	1010560224	Riyadh Sulaymaniyah District Riyadh	16/06/1440H (corresponding to 21/02/2019G)	16/06/1445H (corresponding to 29/12/2023G)
4	Middle East Pharmaceutical Industries Company - Subsidiary (Middle East Distribution Company)	1010175025	Riyadh Second Industrial City	11/01/1423H (corresponding to 25/03/2002G)	25/12/1445H (corresponding to 01/07/2024G)
5	Middle East Pharmaceutical Industries Company - Subsidiary (Middle East Pharmaceutical Industries Company)	1010728546	Riyadh Second Industrial City	03/12/1442H (corresponding to 13/07/2021G)	03/12/1445H (corresponding to 09/06/2024G)
6	Middle East Pharmaceutical Industries Company - Subsidiary (Middle East Pharmaceutical Industries Company)	1010394325	Riyadh Second Industrial City	10/01/1435H (corresponding to 13/11/2013G)	14/06/1445H (corresponding to 27/12/2023G)
7	Middle East Pharmaceutical Industries Company - Subsidiary (Middle East Pharmaceutical Industries Company)	1010653238	Riyadh Masha'el District, Azhair Street	25/01/1442H (corresponding to 13/09/2020G)	25/01/1446H (corresponding to 31/07/2024G)
8	Middle East Pharmaceutical Industries Company - Subsidiary (Middle East Distribution Company)	4030278683	Jeddah, down city road	17/01/1436H (corresponding to 10/11/2014G)	17/01/1446H (corresponding to 23/07/2024G)
9	Middle East Pharmaceutical Industries Company - Subsidiary (Middle East Distribution Company)	4030161826	Jeddah Al Nakheel District	23/04/1427H (corresponding to 21/05/2006G)	23/04/1445H (corresponding to 07/11/2023G)
10	Middle East Pharmaceutical Industries Company - Subsidiary (Middle East Distribution Company)	2050061104	Dammam Khalidiya Warehouse Complex No. (5)	27/06/1429H (corresponding to 01/07/2008G)	26/06/1445H (corresponding to 08/01/2024G)
11	Middle East Pharmaceutical Industries Company - Subsidiary (Middle East Distribution Company)	2050168074	Dammam King Faisal Road, Al- Tubaishi District	23/07/1444H (corresponding to 14/02/2023G)	23/07/1445H (corresponding to 04/02/2024G)
12	Middle East Pharmaceutical Industries Co., Ltd. (a foreign company branch)	100636	Dubai United Arab Emirates	15/11/1443H (corresponding to 14/06/2022G)	06/11/1445H (corresponding to 14/05/2024G)

Source: Avalon Pharma Company

The following table lists the regulatory and operational licenses and certificates obtained by the Company

Table No. (214): Data on the regulatory and operational licenses and certificates obtained by the Company

Type of license	license number	Issuance Date	Expiry date	Status	Issuing Agency	Renewal mechanism
1 Commercial agency registration certificate	8209	03/04/1438H (corresponding to 01/01/2017G)	03/04/1446H (corresponding to 02/11/2024G)	Valid / Current	Ministry of Commerce	According to the contract registered with the Ministry of Commerce
2 Membership certificate from the Chamber of Commerce/Middle East Pharmaceutical Industries Company	90430	03/04/1419H (corresponding to 26/07/1998G)	25/06/1446H (corresponding to 27/12/2024G)	Valid / Current	Riyadh Chamber of Commerce	According to the validity of the related C/R
3 Membership certificate from the Chamber of Commerce/Middle East Distribution Company - Company branch	120218	12/01/1423H (corresponding to 26/03/2002G)	25/12/1445H (corresponding to 01/07/2024G)	Valid / Current	Riyadh Chamber of Commerce	According to the validity of the related C/R
4 Zakat certificate/Middle East Pharmaceutical Industries Company	1110410119	13/02/1445H (corresponding to 29/08/2023G)	21/10/1445H (corresponding to 30/04/2024G)	Valid / Current	Zakat, Tax and Customs Authority	On an annual basis
5 VAT registration certificate/Middle East Pharmaceutical Industries Company	300256164600003	14/04/1439H (corresponding to 01/01/2018G)	-	Valid / Current	Zakat, Tax and Customs Authority	-
6 Industrial facility license - national investment/Middle East Pharmaceutical Industries Company	441102124872	21/07/1444H (corresponding to 12/02/2023G)	17/01/1447H (corresponding to 12/07/2025G)	Valid / Current	Ministry of Industry and Mineral Resources	Upon Expiry
7 Licensing an industrial facility - national investment / Middle East Pharmaceutical Industries Company - Company branch	441102121864	28/03/1444H (corresponding to 24/10/2022G)	28/12/1446H (corresponding to 24/06/2025G)	Valid / Current	Ministry of Industry and Mineral Resources	Upon Expiry
8 Municipality license to conduct the activity of the Middle East Pharmaceutical Industries Company	43089556577	-	20/09/1445H (corresponding to 30/03/2024G)	Valid / Current	Riyadh Municipality (Al Sulay Municipality)	Depending on the period of validity, renewal occurs upon expiry
9 Municipality license to conduct activity/Middle East Pharmaceutical Industries Company - Company branch	40112489559	-	25/11/1445H (corresponding to 02/06/2024G)	Valid / Current	Eastern Province Municipality (East Dammam Municipality)	Depending on the period of validity, renewal occurs upon expiry
10 Municipality license to conduct activity/ Middle East Distribution Company - Company branch	42105719580	-	16/12/1447H (corresponding to 02/06/2026G)	Valid / Current	Riyadh Municipality (Olayya Municipality)	Depending on the period of validity, renewal occurs upon expiry
11 Municipality license to conduct activity/ Middle East Distribution Company - Company branch	40031759998	-	29/07/1446H (corresponding to 29/01/2025G)	Valid / Current	Riyadh Municipality (Al Sulay Municipality)	Depending on the period of validity, renewal occurs upon expiry
12 Municipality license to conduct activity/ Middle East Distribution Company - Company branch	39111432499	-	25/06/1445H (corresponding to 07/01/2024G)	Valid / Current	Jeddah Governorate Municipality (Abraq Al-Rughama Municipality)	Depending on the period of validity, renewal occurs upon expiry

Type of license	license number	Issuance Date	Expiry date	Status	Issuing Agency	Renewal mechanism
13 Municipality license to conduct activity/ Middle East Distribution Company - company branch	39111336419	-	06/11/1445H (corresponding to 14/05/2024G)	Valid / Current	Jeddah Governorate Municipality (New Jeddah Municipality)	Depending on the period of validity, renewal occurs upon expiry
14 ISO 9001 Certificate, 2015/Middle East Pharmaceutical Industries Company	101106/MID09 A	27/02/1443H (corresponding to 04/10/2021G)	For a period of three years from the date of issuance	Valid / Current	RIR Certification	Every three years
15 ISO 14001 Certificate, 2015/Middle East Pharmaceutical Industries Company	101106/MID14A	27/02/1443H (corresponding to 04/10/2021G)	For a period of three years from the date of issuance	Valid / Current	RIR Certification	Every three years
16 ISO 45001 Certificate, 2018/Middle East Pharmaceutical Industries Company	101106/MID45A	27/02/1443H (corresponding to 04/10/2021G)	For 3 years as of the issuance dat	Valid / Current	RIR Certification	Every three years
17 ISO 13485 Certificate, 2016/Middle East Pharmaceutical Industries Company	SA95737H	17/07/1443H (corresponding to 18/02/2022G)	18/08/1446H (corresponding to 17/02/2025G)	Valid / Current	LMS Certification Limited	Every three years
18 Scientific office license/Middle East Pharmaceutical Industries Company	00107-01-04	12/01/1441H (corresponding to 12/09/2019G)	12/01/1446H (corresponding to 18/07/2024G)	Valid / Current	General Authority for Food and Drug Administration	Upon Expiry
19 Medical Instruments and supplies factory license/Middle East Pharmaceutical Industries Company - Company branch	ML-2022-MD-1038	09/09/1443H (corresponding to 10/04/2022G)	02/11/1448H (corresponding to 09/04/2027G)	Valid / Current	General Authority for Food and Drug Administration	Every three years
20 Medical instruments and supplies factory/Middle East Pharmaceutical Industries Company	ML-2022-MD-1049	11/09/1443H (corresponding to 12/04/2022G)	04/11/1448H (corresponding to 11/04/2027G)	Valid / Current	General Authority for Food and Drug Administration	Every three years
21 Medical devices and products facility license/Middle East Pharmaceutical Industries Company	IDL-2019-MD-3496	27/11/1440H (corresponding to 30/07/2019G)	07/01/1446H (corresponding to 13/07/2024G)	Valid / Current	General Authority for Food and Drug Administration	Every three years
22 Warehouse license/ Middle East Distribution Company warehouse - Company branch	00069-05-06	25/04/1441H (corresponding to 22/12/2019G)	21/04/1445H (corresponding to 05/11/2023G)	Valid / Current	General Authority for Food and Drug Administration	Upon Expiry
23 Warehouse license/ Middle East Distribution Company warehouse - Company branch	01173-01-06	24/10/1442H (corresponding to 05/06/2021G)	05/01/1448H (corresponding to 30/06/2026G)	Valid / Current	General Authority for Food and Drug Administration	Upon Expiry
24 Warehouse license/ Middle East Distribution Company warehouse - Company branch	04079-01-06	01/12/1443H (corresponding to 30/06/2022G)	01/12/1448H (corresponding to 07/05/2027G)	Valid / Current	General Authority for Food and Drug Administration	Upon Expiry
25 Warehouse license/ Middle East Distribution Company warehouse - Company branch	00103-02-06	24/08/1444H (corresponding to 16/03/2023G)	17/09/1449H (corresponding to 13/02/2028G)	Valid / Current	General Authority for Food and Drug Administration	Upon Expiry
26 Factory license/Middle East Pharmaceutical Industries Company	ML-2023-DR-0013	18/02/1445H (corresponding to 03/09/2023G)	08/04/1450H (corresponding to 29/08/2028G)	Valid / Current	General Authority for Food and Drug Administration	Upon Expiry

Type of license	license number	Issuance Date	Expiry date	Status	Issuing Agency	Renewal mechanism
27 Cosmetic products factory for Middle East Pharmaceutical Industries	ML-2023-CM-0161	05/02/1445H (corresponding to 21/08/2023G)	04/06/1447H (corresponding to 25/11/2025G)	Valid / Current	General Authority for Food and Drug Administration	Upon Expiry
28 Factory license / Middle East Pharmaceutical Industries Company - Company branch	00009-01-01	02/07/1441H (corresponding to 26/02/2020G)	02/07/1446H (corresponding to 02/01/2025G)	Valid / Current	General Authority for Food and Drug Administration	Upon Expiry
29 Authorized representative license / Middle East Pharmaceutical Industries Company	ARL-2022-MD-0996	18/05/1444H (corresponding to 12/12/2022G)	04/06/1447H (corresponding to 11/12/2027G)	Valid / Current	General Authority for Food and Drug Administration	Upon Expiry
30 Good Manufacturing Practice Certificate	2021015	17/08/1442H (corresponding to 30/03/2021G)	For a period of three years from the last inspection visit, which was on 21/04/1442H (corresponding to 06/12/2020G)	Valid / Current	General Authority for Food and Drug Administration	Three years after the last inspection visit
31 Good Manufacturing Practice Certificate	2021016	17/08/1442H (corresponding to 30/03/2021G)	For a period of three years from the last inspection visit, which was on 21/04/1442H (corresponding to 06/12/2020G)	Valid / Current	General Authority for Food and Drug Administration	Three years after the last inspection visit
32 Civil Defence License/ Middle East Distribution Company - Company Branch	44-000019199-6	14/04/1444H (corresponding to 06/03/2023G)	14/08/1445H (corresponding to 24/02/2024G)	Valid / Current	General Directorate of Civil Defense	Upon Expiry
33 Civil Defence License/Middle East Pharmaceutical Industries Company	44-000602714-3	07/04/1444H (corresponding to 11/01/2022G)	07/04/1445H (corresponding to 22/10/2023G))	Valid / Current	General Directorate of Civil Defense	Upon Expiry
34 Civil Defence License/Middle East Pharmaceutical Industries Company	43-000934110-1	21/12/1444H (corresponding to 09/07/2023G)	21/12/144AH (corresponding to 27/06/2024G)	Valid / Current	General Directorate of Civil Defense	Upon Expiry
35 Civil Defence License/ Middle East Warehouse - Company Branch	44-000904806-2	17/10/1444H (corresponding to 07/05/2023G)	17/10/1445H (corresponding to 26/04/2024G)	Valid / Current	General Directorate of Civil Defense	Upon Expiry

Source: Avalon Pharma Company

12-6 Material Contracts

12-6-1 Related Party Contracts and Transactions

All contracts and transactions that take place with Related Parties must be presented to the General Assembly of Shareholders for approval in a way that achieves the interest of the Company and its Shareholders and puts the interest of the Company ahead of the interest of Related Parties. Except for what is mentioned below, the Company's management confirms that there are no transactions with Related Parties, including members of the Board of directors, shareholders, senior executives or their relatives.

Table No. (215): Contracts with Related Parties

Related party contracts		
Party	Nature of relationship	Nature of the transaction
1 Lawyer Mr. Faisal Shaher Ahmad Al-Tabbaa	A shareholder in the Company with an ownership percentage of (6.4%)	A consulting services contract worth (25,000) Saudi riyals per month

Source: Avalon Pharma Company

12-6-2 Summary of the Company's Essential Contracts

The Company has entered into a number of material agreements with several parties, and this section provides a summary of the applicable agreements that the members of the Board of Directors believe are material agreements in relation to the business of the Company and its subsidiaries and that would materially affect the investors' decision to subscribe to the Offer Shares. The summary of the agreements below does not include all terms and conditions and hence cannot be considered a substitute for the terms and conditions contained in such agreements.

Table No. (216): Products supply and distribution agreements in the Kingdom

Supply and Distribution Agreements in the Kingdom							
	Distributor	Supplier	Agreement Type	Products	Agreement Date	Agreement Duration	Renewal conditions
1	Middle East Pharmaceutical Industries Company	Averroes Naturalia GmbH German company	Distribution agreement	Medical products	04/12/2019G	(5) years	It is automatically renewed for an indefinite period, unless the agreement is terminated
2	Middle East Pharmaceutical Industries Company	Elpen Pharmaceutical Co Inc. Greek company	Licensing and supply agreement	Medical products	29/09/2016G	(5) Commercial years The sale begins in September 2017 and ends in August 2022, and the agreement was renewed for a period of 3 commercial years.	It is renewed for an additional commercial year, provided that the minimum amount specified in the agreement is purchased by the Company 4 months before the end of the agreement period.
3	Middle East Pharmaceutical Industries Company	(Technature SAS) French company	Supply agreement	Facial masks for moisturizing and whitening	08/12/2019G	(3) years	Automatically renewed

Source: Avalon Pharma Company

The following table shows details of the sales contracts entered into by the Company:

Table No. (217): Sales contracts

Sales Contracts						
Contract	Starting date	Duration (in years)	Expiry date	Value	Termination or annulment	Terms of renewal
1 Sales contract 1	01/01/2023G	One calendar year	31/12/2023G	2,200,000 (Two million two hundred thousand Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated

Sales Contracts						
Contract	Starting date	Duration (in years)	Expiry date	Value	Termination or annulment	Terms of renewal
2 Sales contract 2	01/01/2023G	One calendar year	31/12/2023G	6,000,000 (Six million Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
3 Sales contract 3	01/01/2023G	One calendar year	31/12/2023G	3,000,000 (three million Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
4 Sales contract 4	01/01/2023G	One calendar year	31/12/2023G	14,000,000 (fourteen million Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
5 Sales contract 5	01/01/2023G	One calendar year	31/12/2023G	The value is linked to each purchase order individually	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
6 Sales contract 6	01/01/2023G	One calendar year	31/12/2023G	1,500,000 (one million five hundred thousand Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
7 Sales contract 7	01/01/2023G	One calendar year	31/12/2023G	1,700,000 (one million seven hundred thousand Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
8 Sales contract 8	01/01/2023G	One calendar year	31/12/2023G	300,000 (three hundred thousand Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
9 Sales contract 9	01/01/2023G	One calendar year	31/12/2023G	400,000 (four hundred thousand Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
10 Sales contract 10	01/01/2023G	One calendar year	31/12/2023G	400,000 (four hundred thousand Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
11 Sales contract 11	01/01/2023G	One calendar year	31/12/2023G	4,000,000 (four million Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated

Sales Contracts						
Contract	Starting date	Duration (in years)	Expiry date	Value	Termination or annulment	Terms of renewal
12 Sales contract 12	01/01/2023G	One calendar year	31/12/2023G	400,000 (four hundred thousand Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
13 Sales contract 13	01/01/2023G	One calendar year	31/12/2023G	2,000,000 (two million Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
14 Sales contract 14	01/01/2023G	One calendar year	31/12/2023G	250,000 (two hundred and fifty thousand Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
15 Sales contract 15	01/01/2023G	One calendar year	31/12/2023G	24,000,000 (twenty-four million Saudi riyals)	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
16 Sales contract 16	01/01/2023G	One calendar year	31/12/2023G	500,000 (five hundred thousand Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
17 Sales contract 17	01/01/2023G	One calendar year	31/12/2023G	500,000 (five hundred thousand Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
18 Sales contract 18	01/01/2023G	One calendar year	31/12/2023G	500,000 (five hundred thousand Saudi riyals), as a minimum	-	-
19 Sales contract 19	01/01/2023G	One calendar year	31/12/2023G	350,000 (three hundred and fifty thousand Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
20 Sales contract 20	01/01/2023G	One calendar year	31/12/2023G	6,800,000 (six million eight hundred thousand Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
21 Sales contract 21	01/01/2023G	One calendar year	31/12/2023G	2,600,000 (two million six hundred thousand Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated

Sales Contracts						
Contract	Starting date	Duration (in years)	Expiry date	Value	Termination or annulment	Terms of renewal
22 Sales contract 22	01/01/2023G	One calendar year	31/12/2023G	2,300,000 (two million three hundred thousand Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
23 Sales contract 23	01/01/2023G	One calendar year	31/12/2023G	2,500,000 (two million five hundred thousand Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
24 Sales contract 24	01/01/2023G	One calendar year	31/12/2023G	700,000 (seven hundred thousand Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
25 Sales contract 25	01/01/2023G	One calendar year	31/12/2023G	3,000,000 (three million Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
26 Sales contract 26	01/01/2023G	One calendar year	31/12/2023G	1,000,000 (one million Saudi riyals), minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
27 Sales contract 27	01/01/2023G	One calendar year	31/12/2023G	1,000,000 (one million Saudi riyals), minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
28 Sales contract 28	01/01/2023G	One calendar year	31/12/2023G	1,500,000 (one million five hundred thousand Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
29 Sales contract 29	01/01/2023G	One calendar year	31/12/2023G	1,800,000 (one million eight hundred thousand Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
30 Sales contract 30	01/01/2023G	One calendar year	31/12/2023G	3,400,000 (three million four hundred thousand Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
31 Sales contract 31	01/01/2023G	One calendar year	31/12/2023G	14,000,000 (fourteen million Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated

Sales Contracts						
Contract	Starting date	Duration (in years)	Expiry date	Value	Termination or annulment	Terms of renewal
32 Sales contract 32	01/01/2023G	One calendar year	31/12/2023G	1,500,000 (one million five hundred thousand Saudi riyals), as a minimum	This contract expires at the end of its original or renewed term or pursuant to a notice sent by the first party to the second at any time to terminate the contract.	The contract renewal mechanism has not been stipulated
33 Sales contract 33	From the date of issuing the certificate or the date of concluding the contract by both parties, which-ever is earlier	30 Gregorian months	-	19,552,119 (nineteen million five hundred and fifty-two thousand one hundred and nineteen Saudi riyals)	-	-
34 Sales contract 34	01/07/2021G	Two Gregorian years, extendable for a third Gregorian year	30/06/2023G	24,015,620 (twenty-four million fifteen thousand six hundred and twenty Saudi riyals)	-	-

Source: Avalon Pharma Company

The following table shows the details of the agreements entered into by the Company to distribute its products outside the Kingdom:

Table No. (218): Agreements to distribute the Company's products outside the Kingdom

Agreements to distribute the Company's products outside the Kingdom							
Distributing company	Country	Type of agreement	Products	Date of agreement	Duration of the agreement	Renewal conditions	
1 Distributor 1	Kuwait	Distribution agreement	Health products	01/02/2010G	(3) Three years	Automatically renewed	
2 Distributor 2	United Arab Emirates	Non-exclusive distribution agreement	Health products	01/01/2013G	(1) year	Automatically renewed	
3 Distributor 3	Hashemite kingdom of Jordan	Exclusive distribution agreement	Health products	11/04/2022G	(1) year	Automatically renewed	
4 Distributor 4	Iraq	Distribution agreement	Health products	15/11/2021G	(3) Three years	Automatically renewed	
5 Distributor 5	Republic of Yemen	Distribution agreement	Health products	01/08/2007G	(1) year	Automatically renewed	
6 Distributor 6	Bahrain	Distribution agreement	Health products	26/03/2008G	(1) year	Automatically renewed	
7 Distributor 7	Lebanon	Distribution agreement	Health products	01/10/2012G	(30) Thirty months	Automatically renewed	
8 Distributor 8	Libya	Exclusive distribution agreement	Health products	12/12/2022G	(5) Five years	Automatically renewed	
9 Distributor 9	Arab Republic of Egypt (Alexandria region - Delta governorates)	Non-exclusive distribution agreement	Health products	01/11/2008G	(1) year	Automatically renewed	
10 Distributor 10	Republic of Sudan	Distribution agreement	Health products	16/08/2017G	(1) year	Automatically renewed	

Source: Avalon Pharma Company

12-7 Properties owned and leased by the Company

The table below shows a summary of the real estate owned by the Company in the city of Riyadh:

Table No. (219): Real estate (Properties) owned by the Company

Property	Space	Ownership	Status	Value	Remarks
1 Plot No. 78 of Plan No. without, located in the New Industrial City district in Riyadh	4,739 Square meters	Pursuant to Title Deed No. 310112020258 dated 07/09/1431H	Owned by the Company	1,706,040 (one million seven hundred and six thousand and forty Saudi riyals)	The Company's warehouse is in the new industrial city in Riyadh
2 Plot No. 81 of Plan No. without, located in the New Industrial City district in Riyadh	4,482 Square meters	Pursuant to Title Deed No. 910121016951 dated 18/07/1431H	Owned by the Company	1,655,154 (one million six hundred and fifty-five thousand one hundred and fifty-four Saudi riyals)	The Company's warehouse is in the new industrial city in Riyadh
3 Plot No. 82/B of Plan No. 196 located in the New Industrial City district in Riyadh	2,290 Square meters	Pursuant to Title Deed No. 717822000392 dated 10/05/1441H	Owned by the Company	-	The Company's warehouse is in the new industrial city in Riyadh
4 Plot No. 84 of Plan No. without, located in the New Industrial City district in Riyadh	5,322 Square meters	Pursuant to Title Deed No. 381943000100 dated 16/10/1444H	Owned by the Company	-	The Company's warehouse is in the new industrial city in Riyadh
5 Unit No. 36/2/9, which includes an office in the first floor of Building No. 36/2, located on the plot of land from Block No. 36 of Plan No. 690, located in the Sulaymaniyah neighborhood in the city of Riyadh.	900.57 square meters	Pursuant to Title Deed No. 610124040243 dated 15/07/1441H	Mortgaged to Banque Saudi Fransi	7,464,142 (seven million four hundred and sixty-four thousand one hundred and forty-two riyals)	The Company's head office
6 Unit No. 36/2/10, which includes an office in the first floor of Building No. 36/2, located on the plot of land from Block No. 36 of Plan No. 690, located in the Sulaymaniyah neighborhood in the city of Riyadh.	875.63 square meters	Pursuant to Title Deed No. 810124040242 dated 15/07/1441H	Mortgaged to Banque Saudi Fransi	10,000,000 (ten million Saudi riyals)	The Company's head office
7 Plot No. 82 of Plan No. without, located in the New Industrial City district in Riyadh	5,249 Square meters	Pursuant to Title Deed No. 610113049235 dated 10/10/1433H	Owned by the Company	3,241,257.5 (three million two hundred and forty-one thousand two hundred and fifty-seven Saudi riyals and fifty halalas)	The Company's warehouse is in the new industrial city in Riyadh

Source: Avalon Pharma Company

The following table shows the details of the Company's lease contracts:

Table No. (220): Company lease contracts

Property	Lessor	Tenant	Status	Lease date and duration	Lease Amount
1 Warehouse	Lessor 1	Middle East Distribution Company (Subsidiary)	Valid / Current	01/01/2023G until 31/12/2023G	80,500 Eighty thousand five hundred Saudi riyals
2 Office	Lessor 2	Middle East Distribution Company (Subsidiary)	Valid / Current	01/05/2023G until 30/04/2024G	254,581 two hundred and fifty-four thousand five hundred and eighty-one Saudi riyals
3 23 Apartments	Lessor 3	The Company	Valid / Current	18/07/2023G until 17/07/2024G	430,153 four hundred and thirty thousand one hundred and fifty-three Saudi riyals
4 Two apartments	Lessor 4	The Company	Valid / Current	18/07/2023G until 17/07/2024G	35,846 thirty-five thousand eight hundred and forty-six Saudi riyals
5 12 Apartments	Lessor 5	The Company	Expired*	02/04/2022G until 01/04/2023G	120,000 one hundred and twenty thousand Saudi riyals
6 One apartment	Lessor 6	Middle East Distribution Company (Subsidiary)	Valid / Current	31/05/2023G until 30/05/2024G	20,000 Twenty thousand Saudi riyals

Property	Lessor	Tenant	Status	Lease date and duration	Lease Amount
7 Office	Lessor 7	Middle East Distribution Company (Subsidiary)	Valid / Current	01/07/2023G until 31/07/2024G	40,825 forty thousand eight hundred and twenty-five Saudi riyals
8 Office	Lessor 8	The Company	Valid / Current	05/04/2023G until 04/04/2024G	12,000 twelve thousand Saudi riyals
9 Warehouse	Lessor 9	The Company	Valid / Current	01/08/2023G until 31/07/2024G	414,000 four hundred and fourteen thousand Saudi Riyals
10 Warehouse	Lessor 10	Middle East Distribution Company (Subsidiary)	Valid / Current	01/01/2023G until 31/12/2023G	368,000 three hundred and sixty-eight thousand Saudi Riyals

Source: Avalon Pharma Company

* Renovation work is underway.

12-8 Loans And Facilities

The Company entered into (3) financing agreements with commercial banks as shown in the table below:

Table No. (221): Financing agreements

Agreement	Date	Financing Agency	Type and value of facility and repayment period	Security	Expiry date
1 Credit facility agreement with Arab National Bank*	10/04/2022G	Arab national Bank	Short-term loan for term financing in the amount of 30,000,000 Saudi riyals for a period not exceeding one year.	A promissory note amounting to 30,000,000 Saudi riyals, issued in Favor of the Arab National Bank. The following guaranteed have provided: 1. Ahmad Shafer Ahmad Al-Tabbaa 2. Ali Shafer Ahmed Tabbaa 3. Faisal Shafer Ahmad Al-Tabbaa 4. Faisal Suleiman Al-Jamaan The formal assignment in Favor of the bank of the entitlements of projects for which final guarantees are issued in the amount of 10 million Saudi riyals.	31/03/2024G
2 Credit facility agreement with the Saudi Investment Bank*	16/06/2022G	Saudi Investment Bank	Short-term loan for term financing in the amount of 45,481,000 Saudi riyals for a period not exceeding one year.	A promissory note amounting to 35,000,000 Saudi riyals, signed by the Company and the guarantors. Guarantee was provided by: 1. Ahmad Shafer Ahmad Al-Tabbaa 2. Faisal Shafer Ahmad Al-Tabbaa 3. Ali Shafer Ahmad Al-Tabbaa 4. Faisal Suleiman Al-Jamaan - Assignment of contract revenues for any project for which performance letters of guarantee is issued by the Saudi Investment Bank.	30/04/2023G
3 A framework credit facility agreement with Banque Saudi Fransi	02/02/2023G	Banque Saudi Fransi	Facilities with a total value of SAR 92,429,000 Saudi including: 1. Revolving loan and short-term loans amounting to SAR 71,830,709 for a period not exceeding one year. 2. A long-term loan amounting to SAR 20,598,291, payable in 13 equal quarterly installment starting from September 2022G and to be paid in full by April 2025G.	- Mortgage of real estate deeds. - Promissory note amounting to 92,429,000 Saudi riyals. - Signing of the a Security Guarantee Agreement by the following: 1. Ahmad Shafer Ahmad Al-Tabbaa 2. Faisal Shafer Ahmad Al-Tabbaa 3. Ali Shafer Ahmad Al-Tabbaa - Assignment of insurance proceeds in Favor of the financing bank. - Assignment of contract revenues amounting to 10 million Saudi riyals or more for any project for which the final letters of guarantee or advance payment guarantees are issued by Banque Saudi Fransi.	The last credit limit expires on 30/04/2025G

Source: Avalon Pharma Company

* Work is underway to sign the renewal agreement.

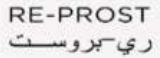
12-9 Intellectual Property

As of the date of this Prospectus, Avalon Pharma and its subsidiaries have registered (157) trademarks for its business, including (151) trademarks registered in the Kingdom of Saudi Arabia with the Saudi Authority for Intellectual Property, in addition to (6) trademarks registered outside the Kingdom of Saudi Arabia with competent authorities. The Company relies on these brands to ensure the success of its business and support its competitive position in the market.







The following table shows some details related to all the trademarks registered by the Company:








Table No. (222): Trademark details








Registration No	Category	Protection start date	Protection end date	Registration authority	Trademark
1 1435002581	5	18/12/2013G	13/05/2033G	Saudi Authority for Intellectual Property	ZITHROCIN
2 1435002582	5	31/12/2013G	13/05/2033G	Saudi Authority for Intellectual Property	AMLOVAL
3 1435002583	5	13/04/2014G	13/05/2033G	Saudi Authority for Intellectual Property	amodip
4 1435002587	5	21/12/2013G	16/05/2033G	Saudi Authority for Intellectual Property	CIPROGRAM
5 1435002591	5	18/12/2013G	13/05/2033G	Saudi Authority for Intellectual Property	BRONCAST
6 1435002592	5	18/12/2013G	13/05/2033G	Saudi Authority for Intellectual Property	BRONCUF
7 1435002593	5	21/12/2013G	16/05/2033G	Saudi Authority for Intellectual Property	CANDAN PLUS
8 1435002603	5	21/12/2013G	16/05/2033G	Saudi Authority for Intellectual Property	CANDAN
9 1435002604	5	18/12/2013G	13/05/2033G	Saudi Authority for Intellectual Property	CARDIA
10 1435002607	5	18/12/2013G	13/05/2033G	Saudi Authority for Intellectual Property	CARVITREND
11 1435002611	5	18/12/2013G	13/05/2033G	Saudi Authority for Intellectual Property	CHOLTEN
12 1435002612	5	21/12/2013G	16/05/2033G	Saudi Authority for Intellectual Property	CRESTIN
13 1435002613	5	18/12/2013G	13/05/2033G	Saudi Authority for Intellectual Property	DE-HIST
14 1435002635	5	18/12/2013G	13/05/2033G	Saudi Authority for Intellectual Property	DE-SAND
15 1435002636	5	18/12/2013G	13/05/2033G	Saudi Authority for Intellectual Property	DIAHERB
16 1435002642	5	18/12/2013G	13/05/2033G	Saudi Authority for Intellectual Property	ESOMAX
17 1435002647	5	22/09/2021G	13/05/2033G	Saudi Authority for Intellectual Property	FLEXITAB
18 1435002649	5	18/12/2013G	13/05/2033G	Saudi Authority for Intellectual Property	KLARE
19 1435002650	5	18/12/2013G	13/05/2033G	Saudi Authority for Intellectual Property	LYRGABA







Registration No	Category	Protection start date	Protection end date	Registration authority	Trademark
20 1435002654	5	18/12/2013G	13/05/2033G	Saudi Authority for Intellectual Property	
21 1435002656	5	18/12/2013G	13/05/2033G	Saudi Authority for Intellectual Property	
22 1435002660	5	18/12/2013G	13/05/2033G	Saudi Authority for Intellectual Property	VARICO
23 1435002661	5	21/12/2013G	16/05/2033G	Saudi Authority for Intellectual Property	VESTA
24 1435002662	5	18/12/2013G	13/05/2033G	Saudi Authority for Intellectual Property	VIRECTA
25 1435011098	5	13/04/2014G	06/09/2033G	Saudi Authority for Intellectual Property	TAVFLOX
26 1435011099	5	13/04/2014G	16/09/2033G	Saudi Authority for Intellectual Property	AMAGLIME PLUS
27 1435011100	5	13/04/2014G	06/09/2033G	Saudi Authority for Intellectual Property	amaglime
28 1435011104	5	13/04/2014G	06/09/2033G	Saudi Authority for Intellectual Property	CARDIOTAN PLUS
29 1435014426	5	12/05/2014G	18/10/2033G	Saudi Authority for Intellectual Property	PRAZOLE
30 1435015096	5	02/06/2014G	26/10/2023G	Saudi Authority for Intellectual Property	VARA
31 1435015097	5	02/06/2014G	23/10/2033G	Saudi Authority for Intellectual Property	DEXA
32 1435023270	5	26/10/2014G	08/07/2024G	Saudi Authority for Intellectual Property	AVOSTAT
33 1437009117	5	02/02/2016G	15/10/2025G	Saudi Authority for Intellectual Property	AVOMITE
34 1437009118	5	02/02/2016G	15/10/2025G	Saudi Authority for Intellectual Property	AVOPRON
35 1437009120	5	02/02/2016G	15/10/2025G	Saudi Authority for Intellectual Property	Avostrip
36 1437009121	5	02/02/2016G	15/10/2025G	Saudi Authority for Intellectual Property	BUTAFYL
37 1437009122	5	02/02/2016G	15/10/2025G	Saudi Authority for Intellectual Property	Cleaneen
38 1437009125	5	02/02/2016G	15/10/2025G	Saudi Authority for Intellectual Property	DIAFOOT
39 1437009127	5	02/02/2016G	15/10/2025G	Saudi Authority for Intellectual Property	Inso-Clean
40 1437009128	5	02/02/2016G	15/10/2025G	Saudi Authority for Intellectual Property	neomadine
41 1437009129	5	02/02/2016G	15/10/2025G	Saudi Authority for Intellectual Property	ORTHODEX
42 1437009132	5	02/02/2016G	01/08/2028G	Saudi Authority for Intellectual Property	S.S.D.D. - 50
43 1437009163	5	23/06/2010G	15/10/2025G	Saudi Authority for Intellectual Property	

Registration No	Category	Protection start date	Protection end date	Registration authority	Trademark	
44	1437011783	5	06/03/2016G	17/11/2025G	Saudi Authority for Intellectual Property	DIAHERB
45	1437011784	5	06/03/2016G	17/11/2025G	Saudi Authority for Intellectual Property	DIAHERB
46	1438000781	3	15/10/2016G	29/06/2026G	Saudi Authority for Intellectual Property	AVALON ORGANICS
47	1438000782	3	15/10/2016G	29/06/2026G	Saudi Authority for Intellectual Property	أفالون العضوية
48	1439006392	5	03/12/2017G	17/08/2027G	Saudi Authority for Intellectual Property	Xibax
49	1439006395	5	03/12/2017G	17/08/2027G	Saudi Authority for Intellectual Property	Escipra
50	1439006396	5	03/12/2017G	17/08/2027G	Saudi Authority for Intellectual Property	Evoka
51	1439006398	5	03/12/2017G	17/08/2027G	Saudi Authority for Intellectual Property	Sitamet
52	1439006400	5	03/12/2017G	17/08/2027G	Saudi Authority for Intellectual Property	Sitavia
53	1439006401	5	03/12/2017G	17/08/2027G	Saudi Authority for Intellectual Property	Avialis
54	1440006115	44	18/11/2018G	01/08/2028G	Saudi Authority for Intellectual Property	
55	1440006118	5	18/11/2018G	01/08/2028G	Saudi Authority for Intellectual Property	CIPROGRAM
56	1440006144	5	18/11/2018G	01/08/2028G	Saudi Authority for Intellectual Property	CORTRIEF
57	1440006148	5	18/11/2018G	01/08/2028G	Saudi Authority for Intellectual Property	CRESMAX
58	1440006149	5	18/11/2018G	01/08/2028G	Saudi Authority for Intellectual Property	EXXARA
59	1440006151	5	18/11/2018G	01/08/2028G	Saudi Authority for Intellectual Property	MUCOF
60	1440006503	3	18/11/2018G	01/08/2028G	Saudi Authority for Intellectual Property	Avalon Sun
61	1440006504	5	18/11/2018G	01/08/2028G	Saudi Authority for Intellectual Property	Avalon Sun
62	1440006506	44	18/11/2018G	01/08/2028G	Saudi Authority for Intellectual Property	Avalon Sun
63	1440006509	5	18/11/2018G	01/08/2028G	Saudi Authority for Intellectual Property	NEXTRA
64	1440008547	3	09/12/2018G	23/08/2028G	Saudi Authority for Intellectual Property	
65	1440008548	5	09/12/2018G	23/08/2028G	Saudi Authority for Intellectual Property	
66	1440008549	44	09/12/2018G	23/08/2028G	Saudi Authority for Intellectual Property	
67	1440008550	3	09/12/2018G	23/08/2028G	Saudi Authority for Intellectual Property	

Registration No	Category	Protection start date	Protection end date	Registration authority	Trademark
68 1440008551	5	09/12/2018G	23/08/2028G	Saudi Authority for Intellectual Property	 avalon care
69 1440019105	3	03/04/2019G	14/12/2028G	Saudi Authority for Intellectual Property	avalonderma
70 1440019108	5	03/04/2019G	14/12/2028G	Saudi Authority for Intellectual Property	avalonderma
71 1440019456	5	03/04/2019G	14/12/2028G	Saudi Authority for Intellectual Property	Oxy Cream
72 1440019455	3	03/04/2019G	14/12/2028G	Saudi Authority for Intellectual Property	Oxy Cream
73 143102649	5	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	ADOLIN
74 143102650	3	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	ADOLIN
75 143102632	3	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	 Avalon
76 143102634	44	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	 Avalon
77 143102655	3	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	 Avalon Pharma
78 143102656	5	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	 Avalon Pharma
79 143102657	44	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	 Avalon Pharma
80 143102653	5	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	AVOCAINE
81 143102638	3	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	AVOCIN
82 143102639	5	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	AVOCIN
83 143102624	5	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	AVOCOM
84 143102630	3	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	AVODYL PLUS
85 143102648	5	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	AVODYL PLUS
86 143102625	5	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	AVOGAIN
87 143102652	5	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	Avogestic Cream
88 143102641	5	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	AVOMACK
89 143102651	5	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	AVOMEB
90 143102635	5	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	AVOQUIN
91 143102636	3	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	AVOQUIN

Registration No	Category	Protection start date	Protection end date	Registration authority	Trademark
92 143102643	3	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	AVORAL
93 143102642	5	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	AVORAL
94 143102654	5	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	AVOTIN-A
95 143102628	5	12/11/2019G	22/09/2029G	Saudi Authority for Intellectual Property	
96 143102645	5	12/11/2019G	22/09/2029G	Saudi Authority for Intellectual Property	ez-glide™
97 143102647	3	12/11/2019G	22/09/2029G	Saudi Authority for Intellectual Property	EZ-SCRUB™
98 143102646	5	12/11/2019G	22/09/2029G	Saudi Authority for Intellectual Property	EZ-SCRUB™
99 143102626	5	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	K JELLY
100 143102627	5	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	MEDISOL®
101 143102629	5	12/11/2019G	27/07/2029G	Saudi Authority for Intellectual Property	salinose®
102 142101908	5	17/11/2022G	02/08/2029G	Saudi Authority for Intellectual Property	K JELLY
103 142101909	5	18/11/2019G	02/08/2029G	Saudi Authority for Intellectual Property	salinose®
104 143105545	5	29/01/2020G	12/10/2029G	Saudi Authority for Intellectual Property	RHINASE
105 143105543	5	29/01/2020G	12/10/2029G	Saudi Authority for Intellectual Property	AVORAPID
106 143105542	5	29/01/2020G	12/10/2029G	Saudi Authority for Intellectual Property	ROTAVEX
107 143106296	3	17/02/2020G	31/10/2029G	Saudi Authority for Intellectual Property	AVOHEX
108 1440027077	5	07/07/2019G	19/03/2029G	Saudi Authority for Intellectual Property	
109 1440027080	5	07/07/2019G	19/03/2029G	Saudi Authority for Intellectual Property	
110 1440027081	44	07/07/2019G	18/03/2029G	Saudi Authority for Intellectual Property	
111 1440027138	3	07/07/2019G	19/03/2029G	Saudi Authority for Intellectual Property	
112 1440027142	44	07/07/2019G	19/03/2029G	Saudi Authority for Intellectual Property	
113 1441004834	3	25/10/2019G	28/06/2029G	Saudi Authority for Intellectual Property	

Registration No	Category	Protection start date	Protection end date	Registration authority	Trademark
114 1441004837	3	15/10/2019G	17/03/2030G	Saudi Authority for Intellectual Property	
115 1441006073	3	23/10/2019G	06/07/2029G	Saudi Authority for Intellectual Property	
116 1441006126	3	27/10/2019G	10/07/2029G	Saudi Authority for Intellectual Property	
117 1441018158	3	19/02/2020G	02/11/2029G	Saudi Authority for Intellectual Property	
118 1441018159	5	19/02/2020G	02/11/2029G	Saudi Authority for Intellectual Property	
119 1441018160	44	19/02/2020G	02/11/2029G	Saudi Authority for Intellectual Property	
120 1441018161	5	19/02/2020G	02/11/2029G	Saudi Authority for Intellectual Property	Avialis
121 1441018162	5	19/02/2020G	02/11/2029G	Saudi Authority for Intellectual Property	Xibax
122 1441018163	5	19/02/2020G	02/11/2029G	Saudi Authority for Intellectual Property	Evoka
123 1441018164	3	19/02/2020G	02/11/2029G	Saudi Authority for Intellectual Property	ScarPro
124 1441030647	5	26/07/2020G	07/04/2030G	Saudi Authority for Intellectual Property	ScarPro
125 1441006128	3	27/10/2019G	10/07/2029G	Saudi Authority for Intellectual Property	
126 143307297	5	24/01/2022G	07/10/2031G	Saudi Authority for Intellectual Property	LIDOKORT
127 143302188	5	22/09/2021G	05/06/2031G	Saudi Authority for Intellectual Property	SAVOY
128 143302193	5	22/09/2021G	05/06/2031G	Saudi Authority for Intellectual Property	colmex
129 143307288	5	24/01/2022G	07/10/2031G	Saudi Authority for Intellectual Property	SURVA CLEAN™
130 143302204	5	22/09/2021G	05/06/2031G	Saudi Authority for Intellectual Property	RE-DO
131 143302203	3	22/09/2021G	06/06/2031G	Saudi Authority for Intellectual Property	RE-DO
132 143302198	5	22/09/2021G	05/06/2031G	Saudi Authority for Intellectual Property	HEMOLAR
133 143302189	5	22/09/2021G	05/06/2031G	Saudi Authority for Intellectual Property	DRY BAN
134 143302190	3	22/09/2021G	05/06/2031G	Saudi Authority for Intellectual Property	DRY BAN
135 143302199	5	22/09/2021G	05/06/2031G	Saudi Authority for Intellectual Property	GYNOMIX
136 143307318	3	01/02/2022G	15/10/2031G	Saudi Authority for Intellectual Property	ALPHA

Registration No	Category	Protection start date	Protection end date	Registration authority	Trademark
137 143302191	5	22/09/2021G	05/06/2031G	Saudi Authority for Intellectual Property	AVOSCRUB™
138 143302202	3	22/09/2021G	05/06/2031G	Saudi Authority for Intellectual Property	firma cream
139 143302201	5	22/09/2021G	05/06/2031G	Saudi Authority for Intellectual Property	firma cream
140 143302187	3	22/09/2021G	05/06/2031G	Saudi Authority for Intellectual Property	SAVOY
141 143405569	3	06/03/2013G	31/07/2032G	Saudi Authority for Intellectual Property	ALPHA PLUS
142 143405570	5	06/03/2013G	31/07/2032G	Saudi Authority for Intellectual Property	ALPHA PLUS
143 143405574	5	17/11/2022G	30/07/2032G	Saudi Authority for Intellectual Property	JOINT
144 143405576	5	18/11/2022G	31/07/2032G	Saudi Authority for Intellectual Property	ZINCOX
145 143405578	5	18/11/2022G	31/07/2032G	Saudi Authority for Intellectual Property	ROPAMINE
146 1443036357	5	09/06/2022G	20/02/2032G	Saudi Authority for Intellectual Property	AVOMEB EXTRA
147 1443036365	3	09/06/2022G	20/02/2032G	Saudi Authority for Intellectual Property	EMOLIA
148 1443036370	3	09/06/2022G	20/02/2032G	Saudi Authority for Intellectual Property	AVOHEX PLUS
149 1443036375	3	09/06/2022G	20/02/2032G	Saudi Authority for Intellectual Property	EZ12
150 1443037074	5	15/06/2022G	26/02/2032G	Saudi Authority for Intellectual Property	AvoTrene
151 1443037078	3	15/06/2022G	26/02/2032G	Saudi Authority for Intellectual Property	AVIORIN
152 82842	5	24/11/2008G	24/11/2028G	Competent authorities in Kuwait	 Avalon Pharma
153 76906	5	23/06/2019G	23/06/2029G	Competent authorities in Bahrain	 Avalon Pharma
154 130995	5	02/02/2016G	25/06/2029G	Competent authorities in the United Arab Emirates	 Avalon Pharma
155 54944	5	18/11/2018G	18/11/2028G	Competent authorities in Qatar	 Avalon Pharma
156 104783	5	16/11/2018G	16/11/2028G	The competent authorities in Jordan	 Avalon Pharma
157 39954	5	24/11/2018G	24/11/2028G	The competent authorities in Sudan	 Avalon Pharma

Source: Avalon Pharma Company

The Company does not own any trademark other than the those mentioned above. Aside from the agreements to distribute the Company's products outside the Kingdom mentioned in Section No. (12-6-2) «**Summary of the Company's Essential Contracts**» of this Prospectus, the Company or any of its subsidiaries does not have any agreement that licenses the use of its trademarks above to any third party, whether inside or outside the kingdom. In addition, other than the supply and distribution agreements mentioned in Section No. (12-6-2) «**Summary of the Company's Essential Contracts**» of this Prospectus, neither the Company nor any of its subsidiaries has any license to use trademarks of Saudi or foreign companies on the Company's publications or its marketing publications inside the Kingdom.

12-10 Insurance

The Company maintains insurance documents that cover various types of risks to which it may be exposed. The following table summarizes the main details of the insurance policies that the Company maintains:

12-10-1 Health insurance

Table No. (223): Health insurance Policies

Insurance Company	Document code	Insurance period		Insurance type	Value of Installment
1 Insurance company 1	30892501	Beginning of the insurance policy: 05/07/2023G	End of insurance policy: 04/07/2024G	Medical for Company employees	(SAR) 1,049,261
2 Insurance company 2	30892525	Beginning of the insurance policy: 05/07/2023G	End of insurance policy: 04/07/2024G	Medical for Company employees	(SAR) 15,349
3 Insurance company 3	30892456	Beginning of the insurance policy: 05/07/2023G	End of insurance policy: 04/07/2024G	Medical for Company employees	(SAR) 2,190,791

Source: Avalon Pharma Company

12-10-2 Property insurance

Table No. (224): Property insurance policies

Insurance Company	Document code	Insurance period		Insurance type	Value of Installment
1 Insurance company 1	PAR/5807342	Beginning of the insurance policy: 16/06/2023G	End of insurance policy: 16/06/2024G	Property insurance against all risks	(SAR) 389,287
2 Insurance company 2	LTO/6080998-2023	Beginning of the insurance policy: 16/06/2023G	Beginning of the End policy: 15/06/2024G	Land transportation insurance	(SAR) 138,690
3 Insurance company 3	LTO/6081004-2023	Beginning of the insurance policy: 16/06/2023G	End of the insurance policy: 15/06/2024G	Land transportation insurance	(SAR) 24,198
4 Insurance company 3	MAO/6077283-2023	Beginning of the insurance policy: 16/06/2023G	End of the insurance policy: 15/06/2024G	Insurance of sea, air and land transportation	Determined according to the value of shipments per month
5 Insurance company 4	MAO/6081095-2023	Beginning of the insurance policy: 15/06/2023G	End of the insurance policy: 14/06/2024G	Insurance of sea, air and land transportation	Determined according to the value of shipments per month
6 Insurance company 5	CGL/5806872	Beginning of the insurance policy: 28/09/2022G	End of the insurance policy: 28/09/2023G	Comprehensive General liability insurance	(SAR) 114,713

Insurance Company	Document code	Insurance period		Insurance type	Value of Installment
7 Insurance company 2	MON/5804786	Beginning of the insurance policy: 08/07/2023G	end of the insurance policy: 07/07/2024G	Insurance against loss of funds at the Company's workplace and during the transfer of funds from the bank to the Company and from the Company to the bank	(SAR) 1.775
8 Insurance company 3	FGI/5804737	Beginning of the insurance policy: 08/07/2023G	end of the insurance policy: 08/07/2024G	Fidelity insurance	(SAR) 8,496

Source: Avalon Pharma Company

12-10-3 Motor insurance

Table No. (225): Vehicle insurance policies

Insurance Company	Document code	Insurance period		Insurance type	Value of Installment
1 Insurance company 1	MFP4024378	Beginning of the insurance policy: 06/07/2023G	End of the insurance policy: 05/07/2024G	Car fleet insurance	(SAR) 18,778
2 Insurance company 2	MFP/901769	Beginning of the insurance policy: 15/07/2023G	End of the insurance policy: 14/07/2024G	Car fleet insurance	(SAR) 26,557

Source: Avalon Pharma Company

12-11 Zakat and tax status

The Company submitted its Zakat returns on a consolidated basis since its incorporation until the end of the fiscal year 2022G and paid all Zakat dues according to it on the due dates. The Company obtained Zakat assessments from the Zakat, Tax and Customs Authority for the years from its establishment until 2022G. The Company also received Zakat certificates from the Zakat, Tax and Customs Authority for the fiscal years 2018G, 2019G, 2020G, 2021G, and 2022G (valid until 21/10/1445H (corresponding to 30/04/2024).

The Company has received the Zakat assessments from the Zakat, Tax and Customs Authority for the fiscal years from its incorporation until the end of 2022G.

During October 2023G, the Company received the Zakat assessments from the Zakat, Tax and Customs Authority for the years from 2018G to 2022G, with an additional obligation amounting to (401,963) four hundred and one thousand nine hundred and sixty-three Saudi riyals, and it will settle it in full as soon as the related invoices are issued by the Zakat, Tax and Customs Authority.

There are currently no outstanding Zakat claims, amounts or disputes with the Zakat, Tax and Customs Authority, and if there are any future claims for any of the previous fiscal years, the Company will bear them.

12-12 Litigation

As of the date of this Prospectus, the Company is a party to (12) twelve lawsuits filed by it which arose during the ordinary course of its business, all of which relate to claims for the payment of due sales and supply amounts that were recognized as revenues to the Company when they became due, the total amount of which is estimated at (4,949,750) four million nine hundred and forty-nine thousand seven hundred and fifty Saudi riyals. The Company also has (1) one lawsuit as a defendant with an undetermined value, and it relates to a rented warehouse that was vacated by the Company. The Company has created a provision for doubtful debts covering the value of cases in which the Company was the plaintiff party, and the Company has not established any provision for lawsuits and claims in which it is a defendant party as of the date of this Prospectus. There are no lawsuits or claims (including any existing or threatened ones) or any ongoing investigation that could materially affect the Company's business or financial position. The following table shows details of the lawsuits:

Table No. (226): Legal claims

Legal lawsuits filed by the Company					
Claimant	Defendant	Litigation party	Subject matter of Lawsuit and the claim amount (SAR)	Case status	
1 Middle East Pharmaceutical Industries Company	Defendant 1	Commercial Court	Sale and supply (453,232)	The session was scheduled for 28/02/1445H	(358,839) Saudi riyals were collected, and the remaining amount is (94,339) Saudi riyals.
2 Middle East Pharmaceutical Industries Company	Defendant 2	Commercial Court	Sale and supply (17,970)	A final judgment was decided in favor of the plaintiff	The ruling was submitted to the Execution Court. Decision 46 was issued
3 Middle East Pharmaceutical Industries Company	Defendant 2	Commercial Court	Sale and supply (65,900)	A final judgment was decided in favor of the plaintiff	The ruling was submitted to the Execution Court. Decision 46 was issued
4 Middle East Pharmaceutical Industries Company	Defendant 4	Commercial Court	Sale and supply (78,392)	It was decided in favor of the plaintiff and did not acquire finality	The ruling was submitted to the Execution Court. Decision 46 was issued
5 Middle East Pharmaceutical Industries Company	Defendant 5	Commercial Court	Sale and supply (26,750)	A final judgment was decided in favor of the plaintiff	The ruling was submitted to the Execution Court. Decision 46 was issued
6 Middle East Pharmaceutical Industries Company	Defendant 6	Commercial Court	Sale and supply (134,617)	A final judgment was decided in favor of the plaintiff	Submitting a request to correct the ruling issued in favor of the plaintiff, after which it will be submitted to the Execution Court. A final ruling was issued in favor of the plaintiff, and the ruling is submitted to the Execution court
7 Middle East Pharmaceutical Industries Company	Defendant 7	Commercial Court	Sale and supply (570,029,75)	A final judgment was decided in favor of the plaintiff	The ruling was submitted to the Execution Court. Decision 46 was issued

Legal lawsuits filed by the Company						
Claimant	Defendant	Litigation party	Subject matter of Lawsuit and the claim amount (SAR)	Case status		
9	Middle East Distribution (Company branch)	Defendant 9	Commercial Court	Sale and supply (1,109,859.44)	A final judgment was decided in favor of the plaintiff	The ruling was submitted to the Execution Court. Decision 46 was issued
10	Middle East Distribution (Company branch)	Defendant 10	Commercial Court	Sale and supply (222,849.18)	A final judgment was decided in favor of the plaintiff	The ruling was submitted to the Execution Court. Decision 46 was issued
11	Middle East Distribution (Company branch)	Defendant 11	Commercial Court	Sale and supply (288,924)	A final judgment was decided in favor of the plaintiff	The ruling was submitted to the Execution Court. Decision 46 was issued
12	Middle East Distribution (Company branch)	Defendant 12	Commercial Court	Sale and supply (1,895,980.18)	A final judgment was decided in favor of the plaintiff	The ruling was submitted to the Execution Court. Decision 46 was issued
Legal lawsuits filed against the Company						
Claimant	Defendant	Litigation party	Subject matter of Lawsuit and the claim amount (SAR)	Case status		
1	Plaintiff 1	Middle East Distribution (Company branch)	Commercial Court	It relates to a warehouse that was previously evacuated and delivered, and the lawsuit concerns handing over the warehouse to the owner as it was	Second session was scheduled for 25/02/1445H, corresponding to 11/09/2023G.	-

Source: Avalon Pharma Company

12-13 Summary of Company's Bylaws

Transformation (Conversion)

In accordance with this Bylaws and the provisions of the Companies Law promulgated by Royal Decree No. (M/3) dated 28/01/1437H, the Middle East Pharmaceutical Industries Company registered in Commercial Registry No. (1010150538), dated 02/04/1419H was transformed into a Saudi joint stock company.

Company Name

Middle East Pharmaceutical Industries Company (Closed Saudi joint stock company).

Head Office of the Company

The Company's head office is located in the city of Riyadh in the Kingdom of Saudi Arabia, and it may establish branches, offices or agencies inside or outside the Kingdom of Saudi Arabia by a decision of the Company's Board of Directors, or anyone delegated by the Board.

Objectives of the Company

The Company undertakes and performs the following objects:

1. Manufacturing industries;
2. Transport and warehousing;
3. Wholesale and retail trade and repair of motor vehicles and motorcycles.

The Company operates in accordance with the applicable laws and with the necessary licenses issued by the competent authorities, if any.

Company Term

The term of the Company shall be ninety-nine (99) Gregorian years, commencing as of the date on which the Company is registered in the commercial register. The Company's term may always be extended by a resolution of the Extraordinary General Assembly at least one year prior to the expiry of the Company's term.

Share Capital

The Company's Share capital is set at (200,000,000) two hundred million Saudi riyals, fully paid, divided into (20,000,000) twenty million nominal shares of equal value, the value of each of which is (10) ten Saudi riyals, all of which are ordinary in kind shares.

Subscription to the Shares

Shareholders subscribed to the entire issued capital amounting to (20,000,000) twenty million fully paid shares, with a total value of (200,000,000) two hundred million Saudi riyals, fully paid.

Shareholder Register

1. The Company shall prepare a special register of the shareholders' names, nationalities, information, places of residence and professions, the number of shares owned by each of them, the numbers of the shares and the amount paid from them. The Company may contract to prepare this register, and it must be kept in the Kingdom.
2. The Company must provide the Commercial Register with the data of the register referred to in Paragraph (1) of this Article and any amendment to it within (fifteen) days from the date of registration of the Company in the Commercial Register or from the date of the amendment, as the case may be.

Transfer of Shares

1. It is permissible to convert one type or category of shares to another type or category.
2. To convert a type or category of shares to another type or category, it is required to obtain approval of the Extraordinary General Assembly. The exception to this is cases in which the decision to issue shares stipulates that they are automatically converted to another type or class when certain conditions are met or after a specific period has passed.
3. The provisions contained in Article (One Hundred and Ten) of the Companies Law apply in cases where the transfer results in modifying or cancelling the rights and obligations related to the type or category of share.
4. Ordinary or preferred shares, or any of their categories, may not be converted into redeemable shares or any of their categories except with the approval of all shareholders in the Company.

Share Trading

The Company's shares are traded by registration in the Shareholders' Register, and the transfer of ownership of the share vis-à-vis the Company or third parties is only effective from the date of this registration.

Sale of Unpaid Shares

The Shareholder is obligated to pay the value of the share on the dates specified for that, and if he fails to pay on the due date, the Board of Directors may, after informing him of the methods prescribed in this Bylaws or informing him by registered letter to his address recorded in the Shareholders Register, or by any means of modern technology, sell the share in a public auction or Exchange, as the case may be, in accordance with the controls determined by the competent authority.

1. The Company shall collect the amounts due thereto from the proceeds of the sale and shall refund the remaining amount to the Shareholder.
2. The effectiveness of the rights related to the defaulted shares shall be suspended upon the expiration of the specified date for them until they are sold or the due payment is made in accordance with the provisions of this Article. They include the right to obtain a share of the net profits to be distributed and the right to attend the assemblies and vote on their decisions. However, the defaulting shareholder may until the day of sale, pay the value due from him, in addition to the expenses that the Company spent in this regard. In this case, the shareholder has the right to request receipt of the profits that are decided to be distributed.
3. The Company shall cancel the sold share in accordance with the provisions of this Article, and shall give the buyer a new share certificate bearing the number of the cancelled share, and shall mark in the share register the occurrence of the sale, indicating the name of the new owner.

Capital Increase

The Extraordinary General Assembly may decide to increase the capital of the Company, provided that the capital has been paid up in full. This provision is not required when the unpaid portion of capital relates to shares issued in exchange for the conversion of financing or debt instruments into shares, and the prescribed period for such conversion has not expired

Capital Reduction

1. The Extraordinary General Assembly may decide to reduce the capital if it exceeds the Company's needs or if it incurs losses. In the latter case only, the capital may be reduced below the limit stipulated in Article (fifty nine) of the Companies Law. The reduction decision shall not be issued except after reading a statement in the General Assembly prepared by the Board of Directors on the reasons for the reduction, the company's obligations and the impact of the reduction on their fulfilment. A report from the Company's Auditor shall be attached to this statement. It may be sufficient to present the aforementioned statement to the shareholders in cases where the General Assembly resolution is passed by circulation.
2. If the capital reduction is a result of it exceeding the Company's needs, the Company creditors must be invited to express their objections - if any - to the reduction at least (forty-five) days before the date set for holding the Extraordinary General Assembly meeting to take the reduction decision, provided that a statement shall be attached with the invitation. showing the amount of capital before and after the reduction, the date of holding the meeting and the effective date of the reduction. If any of the creditors objects to the reduction and submits his documents to the Company on the aforementioned date, the Company must pay him his debt if it is due or provide him with sufficient guarantee to fulfil it if it was later.

Management of the Company

The Company shall be managed by a Board of Directors consisting of (5) five members, who must be natural persons elected by the Ordinary General Assembly of shareholders for a period not exceeding (4) four years. As an exception to this, the shareholders appointed the first Board of Directors for a period of (4) years as follows:

	Name	Position
1	Ahmad Shaher Ahmad Al-Tabbaa	Chairman of the Board of Directors
2	Hisham Mohammed Mahmoud Attar	Deputy Chairman of the Board
3	Mohammed Maher MohammedLotfi Al-Ghannam	Member of the Board of Directors and Managing Director
4	Faisal Suleiman Mohammed Al-Jamaan	Member of the Board of Directors
5	Omar MohammedSaeb Abdul Qader Al-Jaroudi	Member of the Board of Directors

Termination of Directorship

Membership in the Board shall end at the expiration of its term, resignation, or expiration of the member's validity in accordance with any law or instructions in force in the Kingdom. The General Assembly may (based on the recommendation of the Board of Directors) terminate the membership of any member who is absent from attending (three) consecutive meetings or (five) sporadic meetings during the term of his membership without a legitimate excuse accepted by the Board of Directors. However, the Ordinary General Assembly may at any time dismiss all or some of the members of the Board of Directors. In this case, the Ordinary General Assembly must elect a new Board of Directors or someone to replace the dismissed member - as the case may be - in accordance with the provisions of the Companies Law.

Expiration of the term of the Board of Directors, retirement of its members, or vacancy of membership

1. The Board of Directors must, before the end of its term, convene the Ordinary General Assembly to elect a Board of Directors for a new term. If it is not possible to hold the election and the term of the current Board's term has ended, its members shall continue to perform their duties until a Board of Directors is elected for a new term, provided that the term of office of the Board members whose term has ended does not exceed the period specified by the Implementing Regulations of the Companies Law.
2. If the Chairman and members of the Board of Directors retire, they must invite the Ordinary General Assembly to convene to elect a new Board of Directors. The retirement shall not take effect until the new Board is elected, provided that the duration of the retiring Board shall not exceed the period specified by the Implementing Regulations of the Companies Law.
3. A member of the Board of Directors may retire from membership of the Board pursuant to a written notification addressed to the Chairman of the Board. If the Chairman of the Board retires, the notification must be directed to the remaining members of the Board and the Secretary of the Board. Retirement shall be effective - in both cases - as of the date specified in the notification.
4. If the position of a member of the Board of Directors becomes vacant due to the death or retirement of any of its members, and this vacancy does not result in a violation of the conditions necessary for the validity of the Board's meeting due to the number of its members being less than the minimum, the Board may appoint a temporary member in the vacant position who has experience and competence, provided that the Commercial Register and the Capital Market Authority shall be notified of this within fifteen days from the date of appointment, and the appointment shall be presented to the Ordinary General Assembly at its first meeting, and the appointed member shall complete the term of his predecessor.
5. If the necessary conditions are not met for the Board of Directors to convene due to the number of its members being less than the minimum stipulated in the Companies Law or these Bylaws, the remaining members must call the Ordinary General Assembly to convene within sixty days; to elect the necessary number of members.

Powers of the Board

Subject to the powers of the General Assembly, the Board of Directors shall have the broadest powers to manage the Company in order to achieve its objectives, develop and approve the Company's comprehensive strategy and main work plans, develop, review and amend the Company's vision, mission and values, build its institutional identity and slogan, develop the strategy and operational plans in light of them and approve them, and establish mechanisms for the Company and its policy, determining its investments and approving investment policies, and investment plans that are compatible with the general direction of the Company, approving investment opportunities, supervising its business and funds, and managing its affairs inside and outside the Kingdom. The Board also shall have - but is not limited to - the right to sign all types of contracts, instruments, documents and agreements, including but not limited to the contracts of incorporation of companies in which the Company participates, with all their amendments, annexes and amendment decisions, and to sign the agreements and instruments before the notary public and official authorities. The Board of Directors shall have the following powers: for example but not limited to:

Regarding policies: Supervising the implementation of the Company's general policy; approving and amending the administrative, technical, labor and supervisory policies and regulations and the Company's organizational structure; approving and amending the authority matrix, and approving the Company's technical and administrative staff. It shall also have the right to form and name administrative units at the level of the organizational structure and change their names, the right to decide opening or closing ranches, appointing their managers, determining their salaries and benefits, and dismissing them, appointing directors of departments and units, senior employees, managing director and CEO, employees and workers, and approving their salary scales, benefits, bonuses and advances granted to them, and dismissing them, approving or terminating their services after the probation period, evaluating their performance, and imposing disciplinary measures on them.

With regard to the Company's finances and the disposal of its assets: The Board may approve the draft annual estimated budget, the required human resources budget, approve the use of the estimated budget reserve, approve the Company's final accounts, and approve its interim annual financial statements.

Regarding internal auditing: The Board shall have the right to approve audit plans for internal audit operations and approve internal audit reports and corrective measures contained in internal audit reports; the right to approve penalties for administrative units that violate the regulations, policies and labour laws approved in the Company.

With regard to the companies and Commercial Registrations: It shall have the right to review the management of registrations, extract registrations, renew registrations, reserve the trade name, subscribe to the Chamber of Commerce, renew subscription to the Chamber of Commerce, approve the signature in the Chamber of Commerce, manage registrations, supervise registrations, add activity, amend registrations, open branches of registrations, cancel registrations, and review social insurance and the General Authority of Zakat, Tax and Customs, Civil Defense review, establishing companies of any type, signing the articles of incorporation and amendment annexes, and the incorporation contracts for companies that the Company may participate in or merge with, and the annexes to their amendments, whatever the content of these amendments, including amendments related to increasing or decreasing capital or assignment of shares, selling or accepting shares assigned to the Company, or transferring or merging companies, buying and selling shares in companies, whether all or some of the shares. The Board shall have the right to appoint and dismiss directors, enter and exit partners, enter into existing companies, increase or decrease capital, buy shares, pay the price, sell shares and receive value, profits, assignment of shares of capital, acceptance of assignment of shares and capital, transfer of shares and bonds, determining the capital, amending the Company's purposes, amending the terms of the articles of incorporation or the amendment appendices, opening accounts with banks in the name of the Company, closing accounts with banks in the name of the Company, signing agreements, registering the Company, registering agencies and trademarks, attending ordinary and extraordinary general assemblies, opening files for the Company, opening branches for the Company, liquidating the Company, converting the Company from a limited liability Company, converting the Company from a limited liability to joint stock, cancellation of the articles of incorporation and amendment annexes, signing the articles of incorporation and amendment annexes with a notary and the accreditors of the Ministry of Commerce, obtaining and renewing commercial registrations for the Company, participating in the Chamber of Commerce and renewing them, reviewing the Quality Management and the Authority of Standards and Metrology, obtaining licenses and renewing them for the Company, converting the establishment into a Company, reviewing and signing before the Ministry of Investment, reviewing telecommunications companies, establishing fixed or mobile telephones in the name of the Company, reviewing the Capital Market Authority, entering tenders, receiving forms, publishing the articles of incorporation, amendment annexes and their summaries, and the laws in the Official Gazette, signing agreements and instruments before the notary and official authorities, and issuing legal powers of attorney on behalf of the Company inside and outside the Kingdom.

With regard to real estate, lands, trusts, and municipalities: Selling, buying, leasing, renting, mortgaging, and releasing the mortgage on lands and real estate, determining their price, developing them, paying their price, collecting the price of the sold ones, transferring their ownership in whole or in part, accepting the purchase of them and others, paying their price, donating and transferring ownership, accepting the gift and transferring ownership, and concluding various contracts

for building on all owned or invested lands, renting them, receiving rentals, mortgaging them, releasing the mortgage, doing everything it deems appropriate, signing the necessary contracts, papers, and documents for that, receiving the title deeds issued in the name of the Company and delivering them, checking with the municipalities, and notaries to carry out all the necessary work of annulment, merging, sorting, dividing, and planning the lands, including waiving the planning ratios and assigning about the interferences, if any, submitting licenses, issuing survey decisions, obtaining deeds, adding area, amending and marginalizing deeds, and introducing real estate deeds into the comprehensive system. And the Board shall have the right to obtain replacement deeds for lost and damaged ones, request the necessary licenses and clearances, receive them, conduct all transactions related to that, pay fees, and sign all documents and papers which are required by all government agencies, public and private institutions, and notaries. It shall have the right to manage all lands and real estate owned by the Company and implement agricultural projects on them, and to establish buildings and facilities for those projects and provide them with the necessary equipment, request licensing for this of various types from all parties and review all municipalities, secretariats and ministries in all its branches, divisions and departments in everything related to lands, real estate and projects built or to be built on them. It shall have the right to borrow from local and foreign banks and to borrow from the Real Estate Development Fund. It shall have the right to borrow from the Real Estate Development Fund and the Agricultural Development Fund and any of their branches in the name of the Company and to sign contracts, mortgages, assignments, receive loans and provide necessary guarantees for such loans, including mortgaging the lands and buildings that the loan requires to be mortgaged to obtain the loan, signing contracts with business contractors to implement projects, requesting visas to recruit labour, signing their employment contracts, determining their salaries, reviewing labour offices with everything related to them, paying their rights, terminating their services, and signing papers, documents necessary for that, carry out all the required procedures at the Notary Public and the relevant Government departments and agencies in all matters related to lands and real estate owned by the Company inside and outside the Kingdom, check with the secretariats and municipalities in opening shops, issuing licenses, renewing licenses, cancelling licenses, transferring licenses, issuing construction and restoration surveys, and issuing completion certificates. Construction, land planning, issuing health cards, and converting agricultural lands into residential ones.

With regard to banks: Checking with all local and foreign banks and bank accounts, opening credit and debit accounts of all types, approving the signature, opening portfolios and investment accounts in the name of the Company with all local and foreign banks and investment companies inside and outside the Kingdom, whether in Saudi or foreign currency, withdrawing and depositing in them, suspending accounts, closing them, reconciling them, and updating their data, requesting electronic services, issuing and receiving ATM cards and credit cards, receiving their secret numbers, suspending accounts, closing them, reconciling them and updating their data, obtaining statements of accounts, performing all electronic banking operations, concluding contracts related to them and Islamic Murabaha contracts, renting steel boxes and using them, approving the balances, and signing all declarations and documents related to moving the accounts including transfer orders, checks, commercial documents, and others, acquiring securities in the Saudi, Gulf, and international markets and trade them by buying and selling, amending and cancelling orders, transferring between investment accounts to the Company's current account at banks or between the Company's investment accounts, updating portfolios, mortgaging securities, releasing mortgages, obtaining banking facilities, providing the necessary guarantees, signing the guarantees required by banks to cover the credit banking facilities granted to others, signing all papers and forms in this regard, obtaining the user name and password for the Company's electronic investment accounts, depositing funds in the accounts opened or to be opened in the name of the Company, withdrawing it, making settlements and release of liability, signing, endorsing and accepting checks, withdrawals, documents, bills, receipts and policies written in Saudi and foreign currency, transferring their ownership to the bank, releasing and receiving, guaranteeing payment of dues and other endorsements, signing all transfer orders and the tables for discounting commercial bonds, signing the localization of commercial bonds and receiving transfers received in the name of the Company in Saudi or foreign currency, organizing export pledges, withdrawing and signing them, and using all banking facilities and credits assigned to them in Saudi and foreign currency, through receipt, fulfilment, settlement, financing, clearing, and in any form of banking dealing, concluding and signing all contracts, instruments and documents related to them, and borrowing from local and foreign banks and real estate, industrial and agricultural development funds., Arab Saudi Agricultural Bank, or from any other party, whether local or foreign, and checking with these entities with all necessary and borrowing amounts in exchange for real and personal guarantees, regardless of their type, whether insurance, mortgage, etc., or without that, and providing guarantors in solidarity with them. It shall have the right to receive loans and assign them, request to be relieved from loans, repay loans, open documentary credits for import and export and all other bank credits, amend and endorse them, remove reservations, withdraw the papers belonging to them, in whole or in part, and receive all documents, bills of lading, and other papers belonging to them, in whole or in part, for any goods that have been shipped or it will be shipped to the Company's account, conclude loan contracts, pledges, and regular or reserve guarantees, provide insurances and mortgages to banks. It shall have the right also to waive and reconcile rights, request bank approvals, sign related contracts and promissory notes, buy and sell parts, sign documents related to them, perform expenses, pay the resulting fees, interest, and commissions, conduct all other banking transactions, and accept violations contained in documentary credit documents. It shall have the right to sign agreements, actions, and treasury products, sell and buy shares, bonds, promissory notes, treasury bonds, Islamic financial instruments of various types and names,

register them in the name of the Company in the Shareholders' Register, or the records of bonds with the competent authorities, and to collect payments of their prices and due instalments, receiving the certificates for those shares and bonds, subscribe in the name of the Company in the Saudi Stock Exchange, in shares of companies issuing shares, in capital increase shares, purchase shares offered at public auctions, paying their price and registering them in the name of the Company, and receive the amounts in excess of subscription, and the value of the subscribed shares in the event of retraction or withdrawal from incorporating of the company, and in receiving profits for shares, companies, and others from any company or bank. It shall have the right to issue instructions or requests for buying and selling by telephone, and it shall have the right to attend the meetings of the constitutional, ordinary, and extraordinary general bodies of joint-stock and closed companies, to vote in them, and to view their books and its various records and access to its various brochures issued by it. It shall have the right to check with all official and private departments, including the Exchange, the clearing centre, Depository Center, and the Securities and Financial Markets Authority. He shall have the right to enter into tenders, auctions, and competitions on behalf of the Company, and to pay, receive, settle, and receive rights from others. It shall have the right to guarantee banking and non-banking facilities for companies in which the Company has shareholding, signing its facilities documents, and waiving all dues to banks or others and the commercial papers related to them. In this regard, it has absolute and broadest powers to deal in their name and conduct all contracts and transactions within the purpose of the Company.

With regard to Government ministries, governmental and non-governmental agencies: The right to check with all ministries, public institutions, agencies, directorates, and their branches, affiliated departments, departments, companies, and private institutions, and to represent the Company and the right to represent the Company before governmental, semi-governmental, and non-governmental agencies inside and outside the Kingdom with regard to payment, and receipt of the price. It shall have the right to negotiate with local or foreign companies inside or outside the Kingdom to obtain agencies from them for the Company and register them with the competent authorities. It shall have the right to demand, collect and receive all amounts related to the Company by means of checks in the name of the Company, certified or uncertified, and to receive financial certificates regardless of its value and insurance benefits.

With regard to Government procurement: Entering into public and private competitions, tenders, and purchases, purchasing their documents, submitting and receiving offers, bids, and tenders, entering public and private auctions and tenders, accepting or rejecting the award, paying and recovering deposits, attending the opening of envelopes, and signing on behalf of the Company on all contracts.

Regarding commercial agencies: It shall have the right to register commercial agencies in the name and for the benefit of the Company, sign all local and international agency contracts in accordance with the regulations, and sign all commercial documents and papers resulting from them.

With regard to the General Customs Authority: Issuing a customs license, renewing the customs license, opening branches for the customs license, transferring the customs license, cancelling the customs license, clearing the goods, inspection and paying fees, receiving clearances and the customs card, amending or issuing a replacement for the lost customs card, managing and supervising the license, issuing an establishment certificate, and requesting customs exemption, import and export.

Regarding the recruitment of employees and recruitment offices: It shall have the right to bring in workers from abroad, obtain and cancel visas, recover visa amounts, amend nationalities, obtain visit visas, amend the professions on visas, check with embassies, extend exit and re-entry visas, visit visas, obtain a statement of data (Brent), receive visa compensation, transfer sponsorships and update data of workers, liquidating and cancelling workers, reporting labour escapes, cancelling reports of labour escapes, issuing and renewing work permits, terminating employment procedures at Social Insurance, reviewing the computer administration in the workforce to drop workers, add and delete Saudis, receive Saudization certificates, open basic and subsidiary files, renew and cancel them, promote them to the second level, transfer ownership of entities, winding them, reviewing the Department of National Recruitment Offices, amending nationalities, amending the destination of arrival, issuing family visit visas, issuing family recruitment visas, and amending professions in visas.

Regarding passports: Checking with passports departments for renewing residency, issuing a replacement for a lost or damaged one, making an exit and re-entry visas, or making a final exit ones, transferring sponsorships, transferring information, updating data, amending professions, settlement, reporting escape cancelling escape reports, cancelling final exit visas, issuing replacement damaged or missing travel visas, , obtaining extension of visit visas, adding dependents, termination procedures for deceased workers, obtaining a list of workers' data (print), dropping workers, checking with the Department of Deportation and Expatriates, the Department of Ports Affairs, obtaining return copies, and issuing Hajj permits.

The Board of Directors shall have the right to form a number of committees to assist it in carrying out its responsibilities and management of the Company and its operations, or to carry out tasks specified by the Board of Directors, determine their wages and remunerations, approve, amend and publish the regulations or policy for each committee, if any, and nominate, appoint and dismiss its members.

The Board shall have the right to select and determine the tasks and powers of the Company's executive management, review and evaluate its performance and the extent of its implementation of established strategies, policies and plans, and develop and approve a succession plan for senior executives, especially the Managing Director and CEO. The Board also shall have the right to appoint an internal auditor, determine his fees, and evaluate his performance. It also shall have the right to delegate the Audit Committee with these tasks.

The Board shall have the right to appoint an executive officer of the Company, suspend and dismiss the Company's agents and employees, and determine their salaries, wages, and bonuses.

The Board also shall have the right to authorize others with all or some of what it has been assigned to do, dismiss the agents, agree with them, and determine their fees. The Board shall have the right to approve and publish the Company's internal, financial, administrative, and technical rules and regulations, its policies and procedures for employees, and appoint the Company's executive committees of various types and names, and determine their tasks and powers, approve the agendas of general assemblies. The Board may appoint representatives of the Company to manage any other Company to which it is affiliated or a shareholder, attend meetings of the assemblies of partners or shareholders, boards of directors, and boards of directors, vote in them on behalf of the Company, and sign the decisions and minutes of meetings of the assemblies of partners and shareholders, their boards of managers and boards of directors.

The Board of Directors shall have the right to distribute interim dividends to registered shareholders during the fiscal year if there are sufficient amounts in the Company's accounts. The dividends are distributed according to a decision issued by the Company's Board of Directors, to be later approved by the General Assembly at its annual meeting.

The Board may also, within the limits of its jurisdiction, authorize one or more of its members or a third party to undertake a specific work or actions, or to take a specific action or procedure, or to carry out a specific action or actions, and to cancel the authorization or power of attorney, partially or completely.

The Board of Directors appoints a secretary from among its members or from others, and determines his powers.

The Board of Directors may, within the limits of its jurisdiction, authorize one or more of its members or a third party to undertake a specific work or tasks.

Remuneration of Board Members

1. Remuneration for members of the Board of Directors shall be a specific amount, an attendance allowance for sessions, in-kind benefits, or a specific percentage of net profits. It is permissible to combine two or more of the above, and the amount and method of remuneration shall be determined as determined by the General Assembly.
2. The report of the Board of Directors to the General Assembly must include a comprehensive statement of all remuneration, expense allowances and other benefits the received by the Directors during the fiscal year and a statement of any amounts the Directors received in their capacity as employees or administrators or in exchange for technical, administrative or advisory works. Such report must also include a statement of the number of Board meetings and the number of meetings attended by each member from the date of the last General Assembly meeting.

Powers of the Chairman, Deputy Chairman and Secretary

1. The Board of Directors shall appoint a Chairman and Deputy Chairman from among its members. The Board of Directors shall also appoint a Secretary from among its members or others.
2. The Board of Directors appoints a CEO from among its members or from others.

The Chairman of the Board and his deputy, in the event of his absence, are responsible for calling the Board to meet, chairing the Board's meetings, setting the dates for the Board's meetings, approving the Board's agendas, publishing its decisions, and following up on their implementation. They are also responsible for inviting the Assembly to hold meetings of the General Assembly of Shareholders and chairing them. They are also responsible for the following powers:

Representing the Company in its relations with others, before the judiciary, all government agencies, the notary public, all Sharia courts, the Board of Grievances, labor offices, the higher primary bodies for settling labor disputes, the commercial papers committees, the committee for settling securities disputes, all judicial committees, quasi-judicial committees of all kinds, dispute resolution committees of all kinds, and arbitration bodies. They shall have the right to acknowledge, demand, defend, plead, dispute, concede, reconcile, accept and deny rulings, request implementation of rulings, and oppose them, filing and hearing lawsuits brought by or against the Company, defending, pleading, proving and denying, attending sessions, challenging, amending, giving an answer, accepting rulings, requesting oaths, accepting and returning oaths, reconciliation, waiver, acknowledgment, denial, pleading, defending, disputing, conciliation, requesting arbitration, accepting rulings and objecting to them on behalf of the Company. They also shall have the right to deal with the electronic system. (Ejar) for the Ministry of Housing, signing and documenting contracts through it, issuing legal

powers of attorney, appointing and dismissing agents and lawyers, authorizing others, and granting others the right to appoint others. The Chairman Deputy Chairman of the Board, in the event of the Chairman's absence, are responsible for representing the Company in its relations with others and before all government agencies, the notary public, civil rights, police departments, chambers of commerce and industry, private bodies, companies and institutions of all kinds, issuing legal powers of attorney, and appointing and dismissing agents and lawyers. The Chairman has the authority of approving job descriptions and their amendments for the Managing Director and CEO, approving the assignment of the Managing Director and CEO for business trips inside and outside the Kingdom of Saudi Arabia, approving the annual leave request for the CEO and assigning someone to act as a substitute for the CEO approving external correspondence addressed to their Highnesses and Excellencies and to officials in government agencies outside the Riyadh region. The Chairman of the Board (together with any member of the Board of Directors) shall have the right to sell, buy, rent and lease lands and real estate, determine their price, develop them, pay their price, collect the price of the sold items, transfer them in whole or in part, accept purchases for them and others, pay their price, donate and empty, accept the gift and empty, and do everything he deems appropriate for that and receive issued deeds, property, reviewing municipalities and secretariats, and writing the contract to do everything necessary for that, and obtaining, amending, marginalizing and updating the instruments.

The Chairman of the Board of Directors may delegate (by written decision) some of his powers to other members of the Board or to third parties to carry out a specific work or tasks. The Deputy Chairman of the Board of Directors shall replace the Chairman of the Board of Directors in his absence in cases where the Board of Directors has a Deputy Chairman.

Appointment of the Managing Director: The Board of Directors shall appoint a Managing Director from among its Board members, who shall have the following powers

With regard to representing the Company with others: Representing the Company in its relationship with others, labor office, notaries, passports, civil rights, police and traffic departments, municipalities, emirates and governorates, the Ministry of Interior and Ministry of Foreign Affairs, Ministry of Labor, embassies, consulates, customs, recruitment office, General Authority of Zakat and Income, General Organization for Social Insurance, and all other government agencies, public institutions, companies, private institutions, chambers of commerce and industry, private bodies and entities, banks, commercial banks, investment institutions and companies, all government financing funds and institutions with their various names and specializations, companies and institutions of all kinds inside and outside the Kingdom, and before the diplomatic and active bodies in the Company's work, regional, international, and charitable, and before the companies established by the Company. He shall have the right to approve amendments to the total estimated budget and transfers between items, to approve the human resources need plan, to approve determining the percentage increase in the total salaries of employees (according to the budget), and to contract on behalf of the Company and approve the processes of purchases, operational contracts, amendments and cancellations in accordance with the annual procurement plan (strategic, periodic, external purchases, materials, services and business), and also has the approval of storage policies.

The Managing Director (jointly with the Chairman of the Board or any other member of the Board) may purchase lands and real estate, pay their price, empty them in whole or in part, accept the purchase of them and others, pay their price, accept the transferring ownership, and do everything he deems appropriate for that, receive the title deeds issued in the name of the Company and deliver them, check with the municipalities and secretariats, and write contracts to do everything necessary for this, obtaining the instruments, amending, marginalizing and updating them. He also shall have the right, within the limits of his powers, to delegate all or some of his powers to whomever he wishes, issue agencies and have the right to cancel agencies.

The membership term of the Chairman, his deputy, the Managing Director, and the Secretary, shall not exceed the term of membership of each of them in the Board. The Board of Directors may relieve the Chairman of the Board, his deputy, the Managing Director, the CEO, and the Secretary, or any of them, from those positions. This will relieve them from their membership in the Board of Directors.

The CEO has the following powers: The CEO is authorized to approve the dates of the General Assembly and publish its results, approve and amend the forms of contracts and agreements, whether they are for foreign governmental agents and sales contracts or for procurement and service management contracts, in addition to the following powers: With regard to representing the Company with third parties: Representing the Company before the companies established by the Company, and in its relationship with others, the clerk of labor, notaries, passports, civil rights, police and traffic departments, municipalities, emirates and governorates, the Ministry of Interior and the Ministry of Foreign Affairs, the Ministry of Labor, embassies, consulates, customs, recruitment clerk, the General Authority for Zakat and Income, the General Organization for Social Insurance, and all other government agencies, government bodies, public institutions and companies, private institutions, chambers of commerce and industry, private bodies, banks, commercial banks, investment institutions and companies, all government financing funds and institutions with their various names and specializations, and companies and institutions of all kinds inside and outside the Kingdom. He also shall have the right to announce the Company's activities and plans in newspapers or publish on social media sites, hold parties for the Company's guests, bid farewell and honor its employees, approve external correspondence addressed to officials in government agencies within the Riyadh region, and external correspondence to officials in the business sector. He also shall have the right to approve

promotional campaigns., Participate in conferences and events related to the nature of the Company's work, approve advertisements in newspapers and magazines, the content of the Company's website and social networking sites, and choose gifts and promotional materials. He also shall have the right to approve the price offers that will be presented to customers (medical facilities) in the government sector, and shall have the right to approve the granting of discounts to customers (medical facilities) in the government and private sectors, and the right to prepare responses to customers' comments related to the products.

Regarding claims and courts: Demanding and filing claims, pleading and defending, hearing claims and responding to them, acknowledging and denying, reconciliation and absolution, requesting an oath and rejecting it, abstaining from it, bringing witnesses and evidence and contesting it, answering, wounding, amending, challenging forgery, denying lines, seals and signatures, requesting a travel ban and lifting it, reviewing the seizure and execution departments, and requesting seizure, implementation, requesting arbitration, appointing experts and arbitrators, appealing the reports of experts and arbitrators, rejecting and replacing them, demanding the implementation of judgments, accepting and denying judgments, objecting to judgments, requesting appeal, demanding a request for reconsideration, marginalization of judgment instruments, requesting rehabilitation, requesting pre-emption, and ending what is necessary to attend sessions in all cases before all courts, and receiving judgment instruments, request for the judge's recusal, the request for entry and intervention, the request to refer the case, the administrative courts (the Board of Grievances), the financial dispute resolution committees, the banking dispute settlement committees, the offices for settling commercial paper disputes, the commercial dispute resolution committees, the customs committees, the commercial fraud committees, the Oversight and Investigation Authority, the Public Prosecution, and the all sides judicial and quasi-judicial committees and requesting to challenge the ruling before the Supreme Court.

Regarding policies: He shall have the right to supervise the implementation of the Company's general policy approved by the Board of Directors and approve the Company's internal procedures and work models and their amendments.

With regard to human resources and administrative affairs: The CEO approves the recruitment plan, approves the appointment of employees, approves the announcement of vacant positions in the Company, job offers presented to candidates, and employment contracts offered to them, approves the confirmation and termination of employees' service during or after the trial period, and shall have the right to approve the disbursement of remunerations and incentives in light of the estimated budget approved by the Board, and he shall have the right to determine the beneficiaries (according to the results of the management's evaluation) and approve the disbursement of monthly wage and salary packages. The CEO may approve the annual training plan and its budget, approve the employee performance assessment, and the assignment of managers of administrative units (senior executives). He shall have the right to approve the request for annual leave and appoint someone to act as a substitute for the managers of administrative units (senior executives). He shall have the right to approve emergency and exceptional procedures without pay and leave to perform Hajj and the dates of official holidays (Eid al-Fitr, Eid al-Adha, National Day and the Day of Founding), and to approve official working hours and their change. He is responsible for adopting the precautionary and preventive measures against epidemics established by relevant government agencies and approving salary identification certificates for employees. He shall have the right to accept or reject the employee's resignation, approve the acceptance of the period of service for employees who have reached retirement age, and approve the appointment of part-time employees. He shall have the right to grant personal advances to employees on salary for a maximum period of 12 months. He shall have the right to postpone the deduction of the employee's personal advance installment, and approve a farewell party for employees who have ended their services in circumstances other than the violation. he also has the authority to issue administrative decisions and circulars, the scope of application for managers of administrative units (senior executives) and employees, and he has the authority to approve the issuance of exceptional travel tickets and authorization for government transactions, and to approve the transfer of sponsorship of the Company's employees to another Company, and he has the authority to approve re-order points for all products (instruments, equipment and tools) related to the Company's main activity and what is related to it. He also shall have the right to approve plans to provide devices, systems, and applications for the Company, and to approve requests for special systems and programs for administrative units outside the approved plan and determine their specifications, and to approve granting the Company's employees broader powers over the systems used (logging in, viewing, and creating reports). He also approves studies, research, reports, market analysis, competitors, economic feasibility, financial model, etc. for investment opportunities, and approves technical standards and specifications for products related to the Company's main activity (devices, equipment, and tools).

With regard to the companies and Commercial Registrations: It shall have the right to review the management of registrations, extract registrations, renew registrations, reserve the trade name, subscribe to the Chamber of Commerce, renew subscription to the Chamber of Commerce, approve the signature in the Chamber of Commerce, manage registrations, supervise registrations, add activity, amend registrations, open branches of registrations, cancel registrations, and review social insurance and the General Authority of Zakat, Tax and Customs, Civil Defense review, establishing companies of any type, signing the articles of incorporation and amendment annexes, and the incorporation contracts for companies that the Company may participate in. He shall have the right to appoint and dismiss managers, and closing accounts with banks in the name of the Company, signing agreements, registering the Company, registering agencies and trademarks, attending ordinary and extraordinary general assemblies, opening files for the Company, opening branches for the

Company, the amendment annexes, signing the incorporation contracts, the amendment annexes with the notary and the accreditors of the Ministry of Commerce, obtaining and renewing commercial registrations for the Company, participating in the Chamber of Commerce and renewing them, reviewing the Quality Department and the Standards and Metrology Authority, issuing and renewing licenses for the Company, converting the establishment into a Company, reviewing the Ministry of Investment and signing before it, reviewing telecommunications companies, and establishing fixed telephones or mobile phones in the name of the Company, checking with the Capital Market Authority, entering tenders, receiving forms, publishing the articles of incorporation, amendment annexes and summaries thereof, and bylaws in the Official Gazette, signing agreements and instruments before the notary and official authorities, and issuing legal powers on behalf of the Company inside and outside the Kingdom.

With regard to real estate, lands, trusts, and municipalities: He shall have the right (together with the Chairman of the Board or any other member of the Board) to purchase, lease, and rent lands and real estate, pay their price, empty them in whole or in part, accept the purchase of them and others, pay their price, accept the emptying, and conclude various contracts for construction on all owned or invested lands, renting them, receiving rentals, mortgaging them, releasing the mortgage, doing everything it deems appropriate, signing the necessary contracts, papers, and documents for that, receiving the title deeds issued in the name of the Company and delivering them, checking with the municipalities, and notaries to carry out all the necessary work of annulment, merging, sorting, dividing, and planning the lands, including waiving the planning ratios and assigning about the interferences, if any, submitting licenses, issuing survey decisions, obtaining deeds, adding area, amending and marginalizing deeds, and introducing real estate deeds into the comprehensive system. And the Board shall have the right to obtain replacement deeds for lost and damaged ones, request the necessary licenses and clearances, receive them, conduct all transactions related to that, pay fees, and sign all documents and papers which are required by all government agencies, public and private institutions, and notaries. It shall have the right to manage all lands and real estate owned by the Company and implement agricultural projects on them, and to establish buildings and facilities for those projects and provide them with the necessary equipment, request licensing for this of various types from all parties and review all municipalities, secretariats and ministries in all its branches, divisions and departments in everything related to lands, real estate and projects built or to be built on them. It shall have the right to borrow from local and foreign banks and to borrow from the Real Estate Development Fund. It shall have the right to borrow from the Real Estate Development Fund and the Agricultural Development Fund and any of their branches in the name of the Company and to sign contracts, mortgages, assignments, receive loans and provide necessary guarantees for such loans, including mortgaging the lands and buildings that the loan requires to be mortgaged to obtain the loan, signing contracts with business contractors to implement projects, requesting visas to recruit labour, signing their employment contracts, determining their salaries, reviewing labour offices with everything related to them, paying their rights, terminating their services, and signing papers, documents necessary for that, carry out all the required procedures at the Notary Public and the relevant Government departments and agencies in all matters related to lands and real estate owned by the Company inside and outside the Kingdom, check with the secretariats and municipalities in opening shops, issuing licenses, renewing licenses, cancelling licenses, transferring licenses, issuing construction and restoration surveys, and issuing completion certificates. Construction, land planning, issuing health cards.

Regarding the Company's finances: The CEO shall have the right to approve amendments to the charter of accounts, reports related to the Company's revenues, comparison of overhead expenses with the planned, and asset inventory reports. The CEO shall have the right to choose the banks with which the Company deals, and he shall have the right to approve temporary and permanent advances in accordance with the limits indicated in the Company's powers matrix. He also shall have the right to contract on behalf of the Company and approve procurement processes, operational contracts, amendments and cancellations in accordance with the annual procurement plan (strategic, periodic, procurement, external, services and business), and he shall have the right to pay fines imposed on the Company by government agencies.

With regard to banks: Checking with all local and foreign banks and bank accounts, opening credit and debit accounts of all types, approving the signature, opening portfolios and investment accounts in the name of the Company with all local and foreign banks and investment companies inside and outside the Kingdom, whether in Saudi or foreign currency, withdrawing and depositing in them, suspending accounts, closing them, reconciling them, and updating their data, requesting electronic services, issuing and receiving ATM cards and credit cards, receiving their secret numbers, suspending accounts, closing them, reconciling them and updating their data, obtaining statements of accounts, performing all electronic banking operations, concluding contracts related to them and Islamic Murabaha contracts, renting steel boxes and using them, approving the balances, and signing all declarations and documents related to moving the accounts including transfer orders, checks, commercial documents, and others, acquiring securities in the Saudi, Gulf, and international markets and trade them by buying and selling, amending and cancelling orders, transferring between investment accounts to the Company's current account at banks or between the Company's investment accounts, updating portfolios, mortgaging securities, releasing mortgages, obtaining banking facilities, providing the necessary guarantees, signing the guarantees required by banks to cover the credit banking facilities granted to others, signing all papers and forms in this regard, obtaining the user name and password for the Company's electronic investment accounts, depositing funds in the accounts opened or to be opened in the name of the Company, withdrawing it, making settlements and release of liability, signing, endorsing and accepting checks, withdrawals, documents, bills, receipts and policies written

in Saudi and foreign currency, transferring their ownership to the bank, releasing and receiving, guaranteeing payment of dues and other endorsements, signing all transfer orders and the tables for discounting commercial bonds, signing the localization of commercial bonds and receiving transfers received in the name of the Company in Saudi or foreign currency, organizing export pledges, withdrawing and signing them, and using all banking facilities and credits assigned to them in Saudi and foreign currency, through receipt, fulfilment, settlement, financing, clearing, and in any form of banking dealing, concluding and signing all contracts, instruments and documents related to them, and borrowing from local and foreign banks and real estate, industrial and agricultural development funds., Arab Saudi Agricultural Bank, or from any other party, whether local or foreign, and checking with these entities with all necessary and borrowing amounts in exchange for real and personal guarantees, regardless of their type, whether insurance, mortgage, etc., or without that, and providing guarantors in solidarity with them. It shall have the right to receive loans and assign them, request to be relieved from loans, repay loans, open documentary credits for import and export and all other bank credits, amend and endorse them, remove reservations, withdraw the papers belonging to them, in whole or in part, and receive all documents, bills of lading, and other papers belonging to them, in whole or in part, for any goods that have been shipped or it will be shipped to the Company's account, conclude loan contracts, pledges, and regular or reserve guarantees, provide insurances and mortgages to banks. It shall have the right also to waive and reconcile rights, request bank approvals, sign related contracts and promissory notes, buy and sell parts, sign documents related to them, perform expenses, pay the resulting fees, interest, and commissions, conduct all other banking transactions, and accept violations contained in documentary credit documents. He shall have the right to sign agreements, actions, and treasury products, sell and buy shares, bonds, promissory notes, treasury bonds, Islamic financial instruments of various types and names, register them in the name of the Company in the Shareholders' Register, or the records of bonds with the competent authorities, and to collect payments of their prices and due instalments, receiving the certificates for those shares and bonds, subscribe in the name of the Company in the Saudi Stock Exchange, in shares of companies issuing shares, in capital increase shares, purchase shares offered at public auctions, paying their price and registering them in the name of the Company, and receive the amounts in excess of subscription, and the value of the subscribed shares in the event of retraction or withdrawal from incorporating of the company, and in receiving profits for shares, companies, and others from any company or bank. It shall have the right to issue instructions or requests for buying and selling by telephone, and it shall have the right to attend the meetings of the constitutional, ordinary, and extraordinary general bodies of joint-stock and closed companies, to vote in them, and to view their books and its various records and access to its various brochures issued by it. It shall have the right to check with all official and private departments, including the Exchange, the clearing centre, Depository Center, and the Securities and Financial Markets Authority. He shall have the right to enter into tenders, auctions, and competitions on behalf of the Company, and to pay, receive, settle, and receive rights from others. He shall have the right to guarantee banking and non-banking facilities for companies in which the Company has shareholding, signing its facilities documents, and waiving all dues to banks or others and the commercial papers related to them. In this regard, he has absolute and broadest powers to deal in their name and conduct all contracts and transactions within the purpose of the Company.

With regard to government ministries, government agencies, and non-governmental agencies: The right to check with all ministries, public institutions, agencies, directorates, and their branches, and their affiliated departments, companies, and private institutions, and to represent the Company and the right to represent the Company before governmental, semi-governmental, and non-governmental agencies inside and outside the Kingdom with regard to payment and receipt of the price. He shall have the right to negotiate with local or foreign companies inside or outside the Kingdom to obtain agencies from them for the Company and register them with the competent authorities. He shall have the right to demand, collect and receive all amounts related to the Company by means of checks in the name of the Company, certified or uncertified, and to receive financial certificates regardless of its value and insurance benefits.

With regard to government procurement: Entering into public and private competitions, tenders, and purchases, purchasing their documents, submitting and receiving offers, bids, and tenders, entering public and private auctions and tenders, accepting or rejecting the award, paying and recovering deposits, attending the opening of envelopes, and signing on behalf of the Company on all contracts.

Regarding commercial agencies: He shall have the right to register commercial agencies in the name and for the benefit of the Company, sign all local and international agency contracts in accordance with the regulations, and sign all of them and the commercial papers resulting from them.

With regard to the General Customs Authority: Issuing a customs license, renewing the customs license, opening branches for the customs license, transferring the customs license, canceling the customs license, clearing the goods, inspection, paying fees, receiving clearances and the customs card, amending or issuing a replacement for the lost customs card, managing and supervising the license, issuing an entity certificate, and requesting customs exemption. Import and export.

Regarding the recruitment of employees and recruitment offices: He shall have the right to bring in workers from abroad, obtain and cancel visas, recover visa amounts, amend nationalities, obtain visit visas, amend the professions on visas, check with embassies, extend exit and re-entry visas, visit visas, obtain a statement of data (Brent), receive visas compensation, transfer sponsorships, and update employees data, liquidating and canceling workers, reporting labor

escapes, canceling reports of labor escapes, issuing and renewing work permits, terminating employment procedures at Social Insurance, checking with the computer administration in the workforce to drop workers, add and delete Saudis, receive Saudization certificates, open basic and subsidiary files, renew and cancel them, promote them to the second level, and transfer ownership or liquidating or canceling the entity, checking with the Department of National Recruitment Offices, amending nationalities, amending the destination of arrival, issuing family visit visas, issuing family recruitment visas, and amending professions in visas.

Regarding passports: Checking with passports in renewing residency, issuing a replacement for a lost or damaged one, making an exit and re-entry visas, or making a final exit, transferring sponsorships, transferring information, updating data, amending professions, settlement, reporting escape, canceling escape reports, canceling final exit visas, and issuing replacement travel visas. Damaged or missing, obtaining the extension of visit visas, adding dependents, terminating procedures for deceased workers, obtaining a list of workers' data (print), dropping workers, returning the Department of Deportation and Expatriates, the Department of Ports Affairs, obtaining return copies, and issuing Hajj permits.

He also shall have the right, within the limits of his powers, to delegate all or some of his powers to whomever he wishes, to issue agencies, and he shall have the right to cancel agencies and form temporary committees.

Secretary: The Board of Directors shall appoint a Secretary from among its members or from a third party, who shall have the following powers:

Preparing agendas for Board meetings, minutes of its meetings, approving dates, and having them reviewed by the Chairman of the Board. He may review external correspondence addressed to Their Highnesses, Excellencies, and officials in government agencies outside the Riyadh region, recommend and submit them to the Chairman of the Board for approval.

Board Meetings

1. The Board of Directors meets four (4) meetings a year at the invitation of its Chairman. The invitation shall be via e-mail. The Chairman of the Board must invite the Board to meet whenever he is requested to do so in writing by any member of the Board to discuss one or more topics. The invitation shall be sent to each member by registered mail, by hand, by fax, or by e-mail at least two weeks before the scheduled date of the meeting, provided that all members sign the minutes of each meeting.
2. The Board of Directors determines the location of its meetings, and they may be held using means of modern technological.

Board meeting and its decisions

1. A Board meeting shall be valid only if attended by three (3) Directors personally. A Director may delegate another Director to attend a Board meeting in accordance with the following controls:
 - a. A Director may not represent more than one Director in the same meeting.
 - b. The delegation shall be made in writing and shall be for a specific meeting.
 - c. A Director acting as a proxy may not vote on resolutions on which his principal is prohibited from voting.
2. Board decisions are issued by a majority of the votes of the members present or represented in the meeting. In the event of a tie, the Chairman shall have the casting vote.
3. The Board of Directors' decision is effective from the date of its issuance, unless it stipulates that it will take effect at another time or when certain conditions are met.
4. The Board may issue decisions in urgent cases - without holding a meeting - by approving them in writing through presenting them to the members by circulation unless a member requests a Board meeting to deliberate on them. These decisions will not be valid unless signed by a majority of members, and these decisions shall be presented to the Board of Directors at its first subsequent meeting to be recorded in the minutes of that meeting.

Board Deliberations

1. Deliberations and resolutions of the Board shall be recorded in minutes signed by the Chairman, the present Directors and the Secretary. Such minutes shall be recorded in a special register signed by the Chairman and the Secretary.
2. It is permissible to use means of modern technological to sign and document deliberations and decisions and record minutes.

Shareholders General Assembly meeting

1. The General Assembly meeting of shareholders shall be chaired by the Chairman of the Board of Directors or his deputy in his absence, or whomever the Board of Directors delegates from among its members in their absence. In the event that this is not possible, the General Assembly shall be chaired by whomever the shareholders delegate from among the members of the Board or from others through voting.
2. Every shareholder shall have the right to attend the general assemblies of shareholders, and in doing so he may delegate another person other than a member of the Board of Directors on his behalf.
3. The General Assembly meeting may be held and the shareholder participates in deliberations and voting on decisions by means of modern technology.

Convening of Assemblies

1. General and private assemblies of shareholders shall be held at the invitation of the Board of Directors. The Board of Directors must call the Ordinary General Assembly to convene within thirty days from the date of the request of the auditor or one or more shareholders representing at least (10%) of the Company's shares that have voting rights. The auditor may call the Assembly to meet if the Board does not invite the Assembly within thirty days from the date of the auditor's request.
2. The request referred to in Paragraph (1) of this Article must state the matters on which shareholders are required to vote.
3. The invitation to convene the General Assembly shall be sent at least twenty-one days before the date specified for the meeting in accordance with the provisions of the Law, taking into account the following:
 - a. Informing shareholders through registered letters to their addresses listed in the Shareholders' Register, or announcing the invitation through means of modern technology.
 - b. Send a copy of the invitation and the agenda to the Commercial Registry, as well as a copy to the Capital Market Authority if the Company is listed on the Exchange on the date of announcing the invitation.
4. The invitation to the Assembly meeting must include at least the following:
 - a. A statement of the holder of the right to attend the assembly meeting and his right to delegate whoever he chooses from among the members of the Board of Directors, and a statement of the shareholder's right to discuss the topics on the Assembly's agenda and ask questions and how to exercise the right to vote.
 - b. The place, date and time of the meeting.
 - c. The type of Assembly, whether it is a public or private Assembly.
 - d. The meeting agenda, including the items on which shareholders are required to vote.
5. Shareholders representing all of the Company's shares that enjoy voting rights may hold a General Assembly without taking into account the conditions and periods specified for the invitation, to consider matters regarding which decision-making falls within the jurisdiction of the General Assembly.

Quorum of Ordinary General Assembly Meetings

1. The Ordinary General Assembly meeting shall not be valid unless it is attended by shareholders representing at least a quarter of the Company's shares that have voting rights.
2. If the quorum necessary to hold the Ordinary General Assembly meeting is not available in accordance with Paragraph (1) of this Article, an invitation shall be sent to a second meeting to be held in the same conditions stipulated in Article (Ninety-One) of the Companies Law within thirty (30) days following the date specified for holding the previous meeting. However, the second meeting may be held one hour after the end of the period specified for the first meeting, provided that the invitation to hold the first meeting includes evidence of the possibility of holding that meeting. In all cases, the second meeting is valid regardless of the number of shares with voting rights represented in it.

Quorum of Extraordinary General Assembly Meetings

1. The Extraordinary General Assembly meeting shall not be valid unless attended by shareholders representing half of the Company's shares that have voting rights.
2. If the quorum necessary to hold the Extraordinary General Assembly meeting in accordance with Paragraph (1) of this Article is not available, an invitation shall be sent for a second meeting, which shall be held in the same conditions stipulated in Article (Ninety-One) of the Companies Law. However, the second meeting may be held after an hour from the end of the period specified for holding the first meeting, provided that the invitation for the first meeting includes evidence of the possibility of holding that meeting. In all cases, the second meeting will be valid if it is attended by a number of shareholders representing at least a quarter of the Company's shares that have voting rights.
3. If the necessary quorum in the second meeting is not met, an invitation shall be sent to a third meeting to be held under the same conditions stipulated in Article (Ninety-One) of the Companies Law, and the third meeting shall be valid regardless of the number of shares with voting rights represented in it after approval of the competent authority.

Voting in Assemblies

1. Each shareholder has one vote for each share in the general assemblies, and cumulative voting must be used to elect members of the Board of Directors, so that the right to vote per share may not be used more than once.
2. Members of the Board of Directors may not participate in voting on the Assembly's decisions related to business and contracts, in which they have a direct or indirect interest or that involve a conflict of interest.

Assembly Resolutions

Resolutions of the Ordinary General Assembly shall be issued by an absolute majority of the Shares represented in the meeting. Resolutions of the Extraordinary General Assembly shall be adopted by a majority vote of at least two-thirds of the Shares represented in the meeting. However, if the resolution to be adopted relates to increase or reduction of the capital, extension of the Company's term, dissolution of the Company prior to the expiry of the term specified under the Bylaws or merger of the Company with another Company, then such a resolution shall be valid only if adopted by a majority vote of three-quarters of the Shares represented at the meeting.

Discussion in assemblies

Every shareholder shall have the right to discuss the topics included in the General Assembly's agenda and address questions regarding them to the members of the Board of Directors and the Auditor. The Board of Directors or the Auditor shall answer shareholders' questions to the extent that does not expose the Company's interest to harm. If a shareholder finds that the response to his question is insufficient, he may appeal to the General Assembly, and its decision in this regard shall take effect.

Preparing Assemblies Meeting Minutes

At the Assembly meeting, minutes shall be taken that include the number of shareholders present, in person or by proxy, the number of shares they represent, in person or by proxy, the number of votes assigned to them, the decisions taken, the number of votes that approved or opposed them, and a comprehensive summary of the discussions that took place at the meeting. Minutes shall be recorded on a regular basis after each meeting in a special register signed by the Assembly's chairperson, secretary, and canvasser.

Appointing, dismissing and retiring the Company's auditor

1. The Company must have one or more auditors from among the auditors licensed to work in the Kingdom, appointed by the Ordinary General Assembly. Its remuneration, term and scope of work shall be determined by the Assembly. It may be reappointed provided that the period of its appointment does not exceed the maximum period in accordance with the provisions prescribed by law.
2. It is permissible, pursuant to a decision taken by the General Assembly, to dismiss the auditor, without prejudice to its right for compensation against the harm it sustained if it is necessary. The Chairman of the Board of Directors must inform the competent authority of the dismissal decision and its reasons, within a period not exceeding (five) days from Date of issuance of the decision.

3. The auditor may resign from his mission pursuant to a written notification that it submits to the Company, and its mission ends on the date of submission or on a later date specified in the notification, without prejudice to the Company's right for compensation against damage caused to it if necessary. The retiring auditor shall submit to the Company and the competent authority - upon submitting the report - a statement of the reasons for its retirement, and the Board of Directors must invite the General Assembly to convene to consider the reasons for the retirement, appoint another auditor, and determine its fees, the duration and scope of its work.

Powers of the auditor

The auditor shall have the right at any time to review the Company's documents, accounting records, and supporting documents. He also shall have the right to request the data and clarifications that he deems necessary to obtain, in order to verify the Company's assets, liabilities, and other matters that fall within the scope of his work. The Board of Directors must enable him to perform his duty, and if the auditor encounters difficulty in this regard, he must document that in a report submitted to the Board of Directors. If the Board does not facilitate the work of the auditor, he must request the Board of Directors to invite the Ordinary General Assembly to consider the matter. The auditor may send this invitation if the Board of Directors does not send it within (thirty) days from the date of the auditor's request.

Fiscal year

The Company's fiscal year starts from the first of January and ends at the end of December of each calendar year, provided that the first fiscal year after the transformation is a continuation of the fiscal year before the transformation.

Financial documents

1. At the end of each fiscal year of the Company, the Board of Directors must prepare the Company's financial statements and a report on its activity and financial position for the past fiscal year. This report includes the proposed method for distributing profits. The Board shall place these documents at the disposal of the auditor at least forty-five (45) days before the date specified for the General Assembly to be held.
2. The Company's Chairman of the Board of Directors, its Chief Executive Officer, and its Chief Financial Officer must sign the documents referred to in Paragraph (1) of this Article, and copies thereof shall be deposited at the Company's main office at the disposal of the shareholders at least twenty-one (21) days before the date set for the General Assembly to be held. .
3. The Chairman of the Board of Directors must provide the shareholders with the Company's financial statements, the Board of Directors' report, after signing them, and the auditor's report, unless published in any modern technology means, at least twenty-one days before the date of the General Assembly, and he must also deposit these documents in accordance with the regulations.

Making Provisions

1. The Ordinary General Assembly - when determining the share of shares in net profits - may decide to form reserves, to the extent that serves the interest of the Company or ensures the distribution of fixed profits to shareholders, as much as possible. The aforementioned Assembly may also deduct amounts from the net profits for certain social purposes for the Company's employees.
2. The General Assembly determines the percentage that must be distributed to shareholders from the net profits after deducting reserves, if any.

Dividend entitlement

Shareholders shall be entitled to their share of the dividends in accordance with the General Assembly resolution issued in this regard. Such resolution shall indicate the maturity date and the distribution date. Shareholders registered in the shareholder register at the end of the maturity date shall be entitled to dividends. The Board of Directors shall implement the resolution of the General Assembly regarding the distribution of dividends to Shareholders.

Expiry and Liquidation of the Company

The Company shall terminate according to one of the reasons for termination mentioned in Article (two hundred and forty-third) of the Companies Law, and upon its expiration it shall enter the stage of liquidation in accordance with the provisions of Chapter Twelve of the Companies Law. If the Company expires and its assets are not sufficient to pay its debts or it is in default according to the bankruptcy law, it must apply to the competent judicial authority to initiate any liquidation procedures under the Bankruptcy Law.

12-13-1 Description of shareholders' rights

Stock transfer

1. It is permissible to convert one type or class of shares to another type or class.
2. To convert a type or class of shares to another type or class, it is required to obtain approval of the Extraordinary General Assembly. The exception to this is cases in which the decision to issue shares stipulates that they are automatically converted into another type or class when certain conditions are met or after a specific period has passed.
3. The provisions contained in Article (110) of the Companies Law apply in cases where the transfer results in modifying or cancelling the rights and obligations related to the type or class of share.
4. Ordinary or preferred shares, or any of their categories, may not be converted into redeemable shares or any of their categories except with the approval of all shareholders in the Company.

Sale of Unpaid Shares

1. Each Shareholder undertakes to pay the value of the Shares on the dates set for such payment. Should a Shareholder fail to pay at the due time, the Board may, after notification of the Shareholder by the methods prescribed in these Bylaws and notifying him via registered mail to his address included in the Shareholders Register or any modern technology means, sell the Shares at public auction or in the Exchange in accordance with controls set by the competent authority.
2. The Company shall collect the amounts due thereto from the proceeds of the sale and shall refund the remaining amount to the Shareholder. If the proceeds of the sale fall short of the amounts due, the Company shall have a claim on the entire assets of the Shareholder for the unpaid balance.
3. The effectiveness of the rights related to the defaulted shares shall be suspended upon the expiry of the specified date for them until they are sold or the due payment is made. They include the right to obtain a share of the net profits to be distributed and the right to attend the assemblies and vote on their decisions. However, a defaulting Shareholder may, up to the date of sale, pay the amount owed thereby plus the expenses incurred by the Company in this regard. In this case, the shareholder shall have the right to request receipt of the profits that are decided to be distributed.
4. In the event that the Company cancels the sold share, it gives the buyer a new certificate for the share bearing the number of the cancelled share, and marks in the Shares Register the occurrence of the sale, indicating the name of the new owner.

Redemption Rights and Repurchase of Shares

Pursuant to Article (114) of the Companies Law, the Company may purchase its Shares in accordance with the rules set by the competent authority, provided that the Shares purchased by the Company shall not be entitled to votes in the Shareholders' Assemblies

Voting rights

Each shareholder shall have one vote in the General Assemblies for each share he owns. Cumulative voting method must be used to elect the Board of Directors, so that the right to vote per share may not be used more than once.

Rights to dividends

Shareholders are entitled to their share in the dividends in accordance with the General Assembly resolution issued in this regard. Such resolution shall indicate the maturity date and the distribution date. Shareholders registered in the shareholder register at the end of the maturity date shall be entitled to dividends.

Entitlement to Surplus Assets upon Liquidation or Dissolution

According to Article (107) of the Companies Law, shares entail equal rights and obligations to obtain a share in the net profits and a share of the Company's assets upon liquidation.

Approvals necessary to amend rights

The Extraordinary General Assembly shall have the authority to amend the rights stipulated in the Company's bylaws, provided that the amendment shall not include depriving the shareholder or amending any of his basic rights as a shareholder and the rights stipulated under the Companies Law and its Implementing Regulations, taking into account the nature of the rights related to the type or class of shares that the shareholder holds; in particular the following:

- Obtaining a share of the profits to be distributed, whether the distribution is in cash or through the issuance of free shares to non-employees of the Company and its subsidiaries.
- Obtaining a share of the Company's net assets upon liquidation.
- Attending general or private shareholders' assemblies, participating in their deliberations, and voting on their decisions.
- Disposing of his shares, except in accordance with the provisions of the law.
- Requesting access to the Company's records and documents, monitoring the work of the Board of Directors, filing a liability lawsuit against the Board members, and appealing the invalidity of the decisions of the general and private shareholders' assemblies.

12-13-2 Declarations of board members regarding legal information

In addition to the other declarations referred to in this Prospectus, the members of the Board of Directors declare the following:

- The Offering does not constitute a breach of the relevant laws and regulations in Saudi Arabia.
- The Offering does not constitute a breach of any contract/agreement entered into by the Issuer.
- All material legal issues concerning the Issuer have been disclosed in the Prospectus.
- Other than what is stated in Section No. (12-12) «**Litigation**» of this Prospectus, neither the Issuer nor its subsidiaries are subject to any lawsuits or legal procedures that may, individually or collectively, have a material effect on the business of the Issuer or its subsidiaries or their financial condition.
- None of the members of the Board of Directors and the CEO have the right to vote on a contract or proposal in which he has an interest.
- None of the members of the Board of Directors and the CEO have the right to vote on the remunerations granted to them.
- None of the members of the Board of Directors or senior executives have the right to borrow from the Issuer.



13

Underwriting

13- Underwriting

The Company, the Selling Shareholders and the Underwriter (Alinma Investment) entered into an underwriting agreement on 29/06/1445H (corresponding to 11/01/2024G) (the "Underwriting Agreement"), pursuant to which the Underwriter has agreed, subject to certain conditions contained in the Underwriting Agreement, to fully underwrite all of the Offer Shares totaling six million (6,000,000) Shares.

13-1 Underwriter

Alinma Investment Company

Al Anoud Tower 2, King Fahd Road, Riyadh

P.O. Box. 55560 Riyadh 11544

Kingdom of Saudi Arabia

Tel: +966 11 2185999

Fax: +966 11 2185970

Website: www.alinmainvestment.com

Email: info@alinmainvest.com



13-2 Summary of the Underwriting Agreement

Pursuant to the terms and conditions of the Underwriting Agreement

1. The Selling Shareholders undertake to the Underwriter to perform the following actions on the first business day following the allocation of the Offer Shares upon closing of the Offering:
 - a. Sell and allocate the Offer Shares to the Individual Subscribers or Participating Parties whose subscription applications have been accepted by the Receiving Agents.
 - b. Sell and allocate the Offer Shares which were not purchased by Individual Subscribers or Participating Parties, if any, to the Underwriter.
2. The Underwriter undertakes to the Company and the Selling Shareholders to purchase any Offer Shares that are not subscribed for by Individual Subscribers or Participating Parties, as follows:

Table No (227): Shares to be Underwritten

Underwriter	Number of Offer Shares to be Underwritten	Percentage of the underwritten Offer Shares out of the total Offer Shares
Alinma Investment	6,000,000	100%

Source: Avalon Pharma Company

13-3 Underwriting Costs

The Selling Shareholders will pay the Underwriter the underwriting fees based on the total value of the Offering. In addition, the Selling Shareholders have agreed to pay the expenses and costs of the Offering on behalf of the Company.



14

Offering Expenses

14- Offering Expenses

The Selling Shareholders will bear all costs related to the Offering, which are expected to amount to approximately (30,000,000) thirty million Saudi riyals, which will be completely deducted from the total Offering Proceeds of (492,000,000) four hundred ninety two million Saudi Riyals.

The Offering Expenses, include the fees of the Financial Advisor, Bookrunner, Lead Manager, Underwriter, Legal Advisor, Due Diligence Advisor, Market Study Advisor, Receiving Agents, Auditor, as well as the expenses of opening an Escrow Account, the costs of marketing and printing, and other expenses and costs related to the Offering.

It is worth noting that the Company will not bear any of the expenses related to the Offering, but will be completely deducted from the total Offering Proceeds, and the Selling Shareholders will pay all the Offering Expenses that the Company borne on their behalf once the Offering process is completed.



15

The Company's Post-Listing Undertakings

15- The Company's Post-Listing Undertakings

After Listing, the Company undertakes to:

- Notifying the Authority of the date of the first General Assembly meeting after accepting the listing, so that any representative can attend.
- Submit business and contracts in which a Director has a direct or indirect interest to the General Assembly for authorization (in accordance with the Companies Law and the Corporate Governance Regulations), provided that the interested Director refrains from voting on the relevant resolution issued in this regard, whether in the Board or the General Assembly.
- Compliance with all mandatory articles of the rules on the Offer of Securities and Continuing Obligations, Listing Rules, and Corporate Governance Regulations immediately after listing.
- Complete Form (8) related to compliance with the Corporate Governance Regulations. If the Company does not comply with any of the requirements of the Corporate Governance Regulations, it must then explain the reasons for this.
- Calling for a general assembly to update the Company's bylaws immediately after listing.
- Disclosing any material developments related to the Company.

Accordingly, upon Listing, the Directors undertake to:

- Record all resolutions and deliberations in the form of written meeting minutes signed by the Board Chairman and Secretary.
- Disclose the details of any Related Party transactions in accordance with the Companies Law and the Corporate Governance Regulations.



16

Exemptions

16- Exemptions

The Company has not filed any application with the Capital Market Authority to obtain any exemptions from any regulatory requirements regarding the Offering process that is the subject of this Prospectus.



17

**Information related to
the Shares and Offering
terms and conditions**

17- Information related to the Shares and Offering terms and conditions

The Company filed an application with the Capital Market Authority to register and offer the shares for public subscription in the Saudi Stock Exchange in accordance with the requirements of the Rules on the Offer of Securities and Continuing Obligations issued by the Capital Market Authority. This Prospectus was approved, and all the supporting documents required by the Authority were submitted, and all official approvals necessary for the process of Offer Shares in the Exchange were obtained. The Company also submitted a request to list its shares on the Exchange in accordance with the Listing Rules to the Saudi Tadawul Company, «Saudi Tadawul,» and the listing request was approved by the Saudi Tadawul.

All Subscribers must carefully read the Offering terms and conditions before completing the Subscription Application Form. Submission of the Subscription Application Form to the Lead Manager, or any Receiving Agent is deemed a declaration of acceptance and approval of the said subscription terms and conditions.

17-1 Subscription to the Offer Shares

(6,000,000) six million ordinary shares will be offered with a nominal value of ten (10) Saudi riyals per share, representing 30.0% of the Company's capital, at an Offering Price of (82) eighty two Saudi riyals per share, with a total value of (492,000,000) four hundred ninety-two million Saudi Riyals.

The Offering to Individual Subscribers and the subsequent listing of the Company's shares depends on the success of the Participating Parties' subscription to the full number of Offer Shares. The Offering will be canceled if it is not covered during this period. The Authority may suspend the Offering after approving this Prospectus and before registering and accepting the shares for listing in the Exchange, in the event of a material change that would negatively and materially affect the Company's operations.

The offering is limited to two investor categories, which are as follows:

Subscription to the Offer Shares shall be restricted to the following two tranches of investors:

Tranche (A) Participating Parties: This tranche comprises the parties that are entitled to participate in the book building process in accordance with the Book Building Instructions (See Section (1) «Terms and Definitions» of this Prospectus). The number of Offer Shares that will be initially allocated to the Participating Parties is (6,000,000) six million Offer Shares, representing 100% of the total Offer Shares, and the final allocation will take place after the end of the Individuals Subscription period. In the event that Individual Subscribers (identified as Tranche (B) below) subscribe for the full number of Offer Shares allocated to them, the Bookrunner shall have the right to reduce the number of shares allocated to the Participating Parties to (5,400,000) five million four hundred thousand Offer Shares as a minimum, representing 90% of the Offer Shares. Initially, (1,800,000) million and eight hundred thousand ordinary Shares will be allocated to the public funds category, representing 30% of the total number of Offer shares. Note that if there is sufficient demand from Individual Subscribers to subscribe to the Offer Shares, the Lead Manager shall have the right to reduce the number of shares allocated to public funds to (1,620,000) one million six hundred and twenty thousand ordinary shares as a minimum, representing 27% of the total number of Offer Shares after completion of the Individual Subscription process. The number and percentage of Offer Shares that will be allocated to the Participating Parties will be determined by the Financial Advisor, in consultation with the Company, using the discretionary allocation mechanism. Certain Participating Parties may not be allocated any shares to, according to what the Company and the Financial Advisor deem appropriate.

Tranche (B) Individual Subscribers: This tranche comprise Saudi natural persons, including any Saudi female divorcee or widow with minor children from a marriage to a non-Saudi individual, who may subscribe in the names of her minor children, on the condition that she proves that she is a divorcee or widow and the mother of her minor children, any non-Saudi natural person who is resident in KSA or GCC nationals, in each case who have a bank account and are entitled to open an investment account with one of the Receiving Agents (collectively referred to as the «Individual Subscribers», and each as an «Individual Subscriber»). Subscription by a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature is proven to have occurred, the law shall be enforced against the applicant. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted. A maximum of six hundred thousand (600,000) Shares, representing ten percent (10%) of the total Offer Shares, shall be allocated to Individual Subscribers. If Individual Subscribers do not subscribe to the full number of Offer Shares allocated to them, the Bookrunner shall have the right to reduce the number of shares allocated to them in proportion to the number of Shares to which they subscribed.

17-2 Offering Period

The Offering Period is (3) three working days starting from Tuesday 18/07/1445H (corresponding to 30/01/2024G), until the end of Thursday 20/07/1445H (corresponding to 01/02/2024G).

Applications to subscribe to the Offer Shares can be submitted by Individual Subscribers to any of the Receiving Agents, or via the Internet, telephone banking, or ATM of the Receiving Agent, or through any other electronic channels provided by the Receiving Agents to their clients, during the Offering Period.

17-3 Method and conditions of subscription for each category of subscribers

17-3-1 Book-Building for Participating Parties

- a. The price range will be determined when the order book is built and made available to all Participating Parties by the Company's Financial Advisor, in consultation with the Company, using the discretionary allocation mechanism. Some Participating Parties may not be allocated any shares as the Financial Advisor deems appropriate in coordination with the Company.
- b. Each Participating Party must submit requests to participate in the book building process by filling out the participation application form that they can obtain from the Bookrunner. The number of Offer Shares to be subscribed for by each Participating Party must not be less than (10,000) ten thousand shares, and not more than (990,000) nine hundred and ninety thousand shares. Public investment funds shall not exceed the maximum limit specified for each participating public fund as determined in accordance with the Book-Building Instructions. The number of requested Shares must be subject to allocation. The Bookrunner will notify the Participating Parties of the Offer Price and the number of Offer Shares initially allocated thereto. The subscription process for Participating Parties must begin during the Offering Period, which also includes Individual Subscribers, in accordance with the subscription terms and conditions as detailed in the Subscription Application Forms.
- c. Following completion of the book building process for Participating Parties, the Financial Advisor shall announce the percentage of coverage by Participating Parties.
- d. The Financial Advisor shall determine the Offer Price based on the forces of supply and demand, provided that the price does not exceed the price specified in the Underwriting Agreement, and provided that the subscription price is in accordance with the price change units applied by the Exchange.

Investors can obtain an electronic copy of this Prospectus from the Company's website (www.avalonpharmaceutical.com), the Capital Market Authority (www.cma.org.sa), or the Financial Advisor (www.aldukheil.com.sa). The Participation application form and subscription application form for Participating Parties can be obtained from the Financial Advisor and Bookrunner through the contact information shown below:

Aldukheil Financial Group

Naeem bin Hammad Street Ministries District, Riyadh

P.O. Box 2462 Riyadh 11451

Kingdom of Saudi Arabia

Tel: +966 (11) 4309800

Fax: +966 (11) 4787795

Website: www.aldukheil.com.sa

E-mail: info@aldukheil.com.sa

الدخيل
Aldukheil

17-3-2 Subscription by Individual Subscribers

Each Individual Subscriber must subscribe to a number of shares of not less than (10) ten Offer Shares as a minimum, and not more than (600,000) six hundred thousand Offer Shares as a maximum. It is not permitted to change or withdraw the Subscription Application after its submission.

Applications to subscribe to the Offer Shares can be submitted by Individual Subscribers who have a bank account with any of the Receiving Agents (Alinma Bank and Saudi National Bank) through electronic channels, phone banking, or ATMs affiliated with the Receiving Agents that provide all or some of these services to their customers. This is during the Offering Period that begins on Tuesday 18/07/1445H (corresponding to 30/01/2024G) and continues until the end of Thursday 20/07/1445H (corresponding to 01/02/2024G). In the event that the information provided in the Subscription Application is incomplete or incorrect, the Subscription Application is considered void.

The Individual Subscriber must specify in the Subscription Application Form the number of shares for which he is applying to subscribe, so that the total subscription amount is the result of multiplying the number of Offer Shares to be subscribed for by the Offering Price of (82) eighty two Saudi riyals per share.

Each Individual Subscriber agrees to subscribe to the shares specified in the Subscription Application he submitted and to purchase them in an amount equivalent to the number of Offer Shares he applied for multiplied by the Offering Price of (82) eighty two Saudi riyals per share. Each Individual Subscriber is considered to have owned the number of Offer Shares allocated to him when the following conditions are met:

- Submitting the Subscription Application to any of the Receiving Agents by the Individual Subscriber through the electronic channels of the Receiving Agent.
- Payment of the full value of the shares requested to be subscribed to the Receiving Agent to which the subscription request was submitted.

The total value of the Offer Shares must be paid in full to the Receiving Agents through debiting the Individual Subscriber's account with the Receiving Agent in which the Subscription Application is submitted or transferring the total amount of the subscribed shares based on the instructions indicated by the Receiving Agent.

If any Subscription Application does not comply with the subscription terms and conditions, the Company shall have the right to reject this application in whole or in part, and the Individual Subscriber acknowledges his approval of any number of shares allocated to him, unless the number of shares allocated to him exceeds the number of shares he subscribed to.

Individual Subscribers subscription will not be accepted for less than (10) ten shares or fractions of shares, and any subscription for shares above that must be a multiple of this number, while the maximum subscription is (600,000) six hundred thousand shares of the Offer Shares.

Submission of the Subscription Application by the Individual Subscriber to the Receiving Agents represents a binding agreement between the Selling Shareholder and the Individual Subscriber who submitted the application.

Individual Subscribers can obtain an electronic copy of this Prospectus from the website of the Company's (www.avalonpharmaceutical.com), Capital Market Authority (www.cma.org.sa), or the Financial Advisor (www.aldukheil.com.sa). Applications to subscribe to the Offer Shares can be submitted by Individual Subscribers who have a bank account with any of the Receiving Agents through electronic channels, telephone banking, or ATMs affiliated with the Receiving Agents that provide all or some of these services to their clients:

Alinma Bank

Al Anoud Tower 2, King Fahd Road, Riyadh

P.O. Box. 66674 Riyadh 11586

Kingdom of Saudi Arabia

Tel: +966 11 218 5555

Fax: +966 11 218 5000

Website: www.alinma.com

Email: info@alinma.com

الإيماء للاستثمار
alinma investment 

Saudi National Bank

King Fahd Road – Al-Aqiq District – King Abdullah Financial District

P.O. Box 3208 Unit No.: 778

Kingdom of Saudi Arabia

Tel.: +966 (92) 674 0001000

Fax: +966 (11) 4060052

Website: www.alahli.com

Email: contactus@alahli.com



17-4 Notification of Allocation and Refunds

The Lead Manager shall open and manage an Escrow Account for the purpose of depositing and holding the subscription amounts collected from the Participating Parties and the Receiving Agents (on behalf of Individual Subscribers). Subscription monies shall be transferred to the Selling Shareholders only when the Listing becomes effective, after the deduction of certain fees and expenses. Details of this Escrow Account shall be specified in the Subscription Application Forms. Moreover, each Receiving Agent shall deposit the amounts collected from the Individual Subscribers into the said Escrow Account.

The Lead Manager or the Receiving Agents (as the case may be) shall notify Subscribers of the final number of Offer Shares allocated to each of them, together with the amounts to be refunded. Excess subscription monies, if any, will be refunded to the Subscribers without any deductions or commissions and will be deposited in the Subscribers' accounts specified in the Subscription Application Forms. The subscription value shall not be allowed to be refunded in cash or to the accounts of third parties. Announcement of the final allocation will be made no later than Thursday 27/07/1445H (corresponding to 08/02/2024G) and refund of excess subscription monies will be made no later than Wednesday 04/08/1445H (corresponding to 14/02/2024G). Subscribers should communicate with the Lead Manager or the Receiving Agent who provided the Subscription Application Form (as the case may be) for further details.

17-4-1 Allocation of Offer Shares to Participating Parties

The Offer Shares will be finally allocated to the Participating Parties by the Financial Advisor in agreement with the Company as he deems appropriate, after the completion of the Individual Subscribers process. The number of Offer Shares that will be initially allocated to Participating Parties is (6,000,000) six million shares, representing 100% of the total Offer Shares. In the event that Individual Subscribers subscribe for all of the shares allocated to them in the Offer Shares, the Financial Advisor shall have the right, in consultation with the Company, to reduce the number of Offer Shares allocated to the Participating Parties to (5,400,000) five million four hundred thousand shares as a minimum, representing 90% of the total Offer Shares. The Offer Shares are allocated to the Participating Parties using the discretionary share allocation mechanism, and it is possible not to allocate any shares to some Participating Parties, as the Company and the financial advisor deem appropriate.

Transfer of the Offer Shares shall only be deemed valid after payment of their value by the Participating Parties, as of the date of registration in the Shareholders' register and the commencement of share trading, in accordance with the regulations and instructions governing the trading of Saudi Shares applied in this regard. If, for any reason, the Company's Shares are not traded or are de-listed prior to trading, for any reason, the subscription monies paid by the Participating Parties shall be refunded and ownership of the Shares shall be returned to the Selling Shareholders.

17-4-2 Allocation of Offer Shares to Individual Subscribers

Individual Subscribers will be allocated a maximum of two million, four hundred thousand (2,400,000) Ordinary Shares, representing 10% of the Offer Shares, noting that the minimum allocation per Individual Subscriber is ten (10) Offer Shares and the maximum allocation per Individual Subscriber is 600,000 Offer Shares. The balance of the Offer Shares, if any, will be allocated pro-rata, based on the number of Offer Shares applied for by each Subscriber to the total number of Shares subscribed for. In the event that the number of Individual Subscribers exceeds six hundred thousand (600,000) Individual Subscribers, the Company shall not guarantee the minimum allocation. In this case, the allocation shall be determined at the discretion of the Financial Advisor in coordination with the Company. Excess subscription monies, if any, shall be refunded to Individual Subscribers without any charge or commission being withheld by the Receiving Agents

Announcement of the final allocation will be made no later than Thursday 27/07/1445H (corresponding to 08/02/2024G) and refund of excess subscription monies will be made no later than Wednesday 04/08/1445H (corresponding to 14/02/2024G). Subscribers should communicate with the Lead Manager or the Receiving Agent to whom he submitted the Subscription Application Form for further details.

17-5 Times and Circumstances where the Company's share may be Suspended

17-5-1 Suspension of or cancelation of Listing

- A. CMA may suspend trading in listed securities or cancel the listing at any time as it deems fit, in any of the following circumstances:
1. If CMA considers it necessary for the protection of investors or the maintenance of an orderly market.
 2. If the Issuer fails, in a manner which CMA considers material, to comply with the Capital Market Law, its Implementing Regulations or the Listing Rules.
 3. If the Issuer fails to pay on time any fees due to CMA or the Exchange or any fines due to CMA.
 4. If CMA considers that the Issuer or its business, the level of its operations or its assets are no longer suitable for the continued listing of its securities on the Exchange.
 5. When a reverse takeover announcement does not contain sufficient information about the proposed transaction. If the Issuer announces sufficient information regarding the target and CMA is satisfied, following the Issuer's announcement, that there will be sufficient information available for the public about the proposed transaction of the reverse takeover, CMA may decide not to suspend trading at this stage.
 6. Upon leakage of information about the proposed transaction of reverse takeover and the Issuer cannot accurately assess its financial condition and the Exchange cannot be informed accordingly.
 7. When a request to initiate financial reorganization of the Company is registered with the court in accordance with the Bankruptcy Law if its accumulated losses reach 50% or more of its capital.
 8. When the request for liquidation procedure or the administrative liquidation of the Issuer is registered with the court under the Bankruptcy Law.
 9. Upon issuance of a final judgment closing the financial restructuring and initiating the liquidation procedure or the administrative liquidation procedure of the Issuer in the court under the Bankruptcy Law.
 10. Upon issuance of a final judgment initiating the liquidation procedure or the administrative liquidation procedure of the Issuer in the court under the Bankruptcy Law.
- B. The Exchange shall suspend the trading of securities of The Company in any of the following cases:
1. When the issuer does not comply with the deadlines for disclosure of its periodic financial information within the periods specified in accordance with applicable implementing regulations.
 2. When the external auditor's report on the financial statements of the issuer contains an adverse opinion or an abstention from expressing opinion.
 3. If the liquidity requirements in Parts two and eight of the Listing Rules are not satisfied after elapse of the time limit set forth by the Exchange for the issuer to rectify its conditions, unless CMA agrees otherwise.
 4. Upon issuance of a resolution by issuer's Extraordinary General Assembly to reduce its capital for the two trading days following the issuance of such resolution.
- C. The Exchange removes the suspension referred to in subparagraphs 1, 2 and 3 of paragraph (C) above, after one trading session has passed after the cause of suspension ceases to exist. In case that the issuer's shares are available for trading outside the platform, the Exchange removes the suspension within a period of not more than five trading sessions after the cause of suspension ceases to exist.
- D. The Exchange may at any time propose to CMA to suspend the trading of any listed security or cancel its listing where, in its opinion, it is likely that any of the above circumstances of paragraph (A) above are to occur.
- E. The issuer whose securities are subject to a trading suspension must continue to comply with the Capital Market Law, its Implementing Regulations and the Listing Rules.
- F. If listing suspension continues for six (6) months with no appropriate procedure taken by the issuer to correct such a suspension, CMA may cancel the listing of issuer.

- G. Upon the issuer's completion of a reverse takeover, the issuer's shares are de-listed. If the issuer wishes to relist its shares, it shall submit a new application for registration and admission to listing in accordance with the requirements stipulated in the Rules on the Offer of Securities and Continuing Obligations.
- H. These paragraphs shall not prejudice the suspension of trading and cancellation of listing resulting from the losses of the issuer pursuant to the relevant implementing regulations of the Exchange Rules.

17-5-2 Optional Cancellation of Listing

- A. An Issuer whose securities have been listed on the Exchange may not cancel the listing of its securities without the prior approval of the CMA. To obtain CMA approval, the Issuer must submit a cancellation application to the CMA, along with a simultaneous notice to the Exchange. The application shall include the following information:
 - 1. The specific reasons for the cancellation request.
 - 2. A copy of the disclosure described below.
 - 3. A copy of the relevant documentation and a copy of each related document sent to the shareholders if the cancellation is to take place as a result of an acquisition or other action taken by the Issuer.
 - 4. The names and contact information of the financial advisors and legal advisor appointed according to the OSCOs.
- B. The CMA may, at its own discretion, approve or reject the cancellation request.
- C. The Issuer shall obtain approval of the Extraordinary General Assembly for the cancellation of the listing after obtaining the CMA's approval.
- D. Where cancellation is made at the Issuer's request for listing, the Issuer shall disclose the same to the public as soon as possible. The disclosure shall include the reason for the cancellation, the nature of the event resulting in the cancellation and how it affects the Issuer's activities.

17-5-3 Temporary Trading Suspension

- A. An issuer may request from the Exchange a temporary trading suspension of its securities upon the occurrence of an event that occurs during trading hours which requires immediate disclosure under the CML, its implementing regulations or the Listing Rules, where the issuer cannot maintain the confidentiality of this information until the end of the trading period. The Exchange suspends trading of the securities of that issuer immediately upon receiving such request.
- B. When trading is temporarily suspended at the issuer's request, the issuer must disclose to the public as soon as possible the reason for the suspension, its anticipated period and the nature of the event that caused it, and the extent to which it affects the issuer's activities.
- C. CMA may impose a temporary trading suspension without a request from the issuer where CMA becomes aware of information or circumstances affecting the issuer's activities which CMA considers would be likely to interrupt the operation of the Exchange or the protection of investors. If its securities are subject to temporary trading suspension, the issuer must continue to comply with Capital Market law, its Implementing Regulations and Exchange Rules.
- D. The Exchange may propose to CMA to exercise its powers in accordance with paragraph (C) above, if it becomes aware of information or circumstances affecting the issuer's activities which would be likely to interrupt the operation of the Exchange or the protection of investors.
- E. A temporary trading suspension will be lifted following the elapse of the period referred to in the disclosure specified in paragraph (B) above in this Section, unless CMA or the Exchange decided otherwise.

17-5-4 Lifting Suspension

A suspension of trading imposed in accordance with Paragraph (A) of Section No. (17-5-1) «**Suspension of or cancellation of Listing**» may be lifted subject to the following considerations:

- A. Adequately addressing the conditions that led to the suspension and lack of a need for to continue the suspension to protect investors.
- B. Lifting of the suspension is likely to have no impact on the normal activity of the Exchange.
- C. The Issuer's compliance with any other conditions that the CMA may require.

In the event that the listing suspension continues for six (6) months with no appropriate procedure made by the Issuer to correct such suspension, the CMA may cancel the Issuer's listing

17-5-5 Re-Registering and Admission of Listing of Cancelled Securities

If the issuer wishes to re-register its shares after their cancellation, the Issuer is required to submit a new application in accordance with the procedures set out in Rules on the Offer of Securities and Continuing Obligations and Listing Rules.

17-6 Decisions and approvals under which the Shares will be offered

Following are the decisions and approvals under which the Company Shares will be offered:

17-6-1 The Company's Board of Directors' decision to offer the Company's shares in an IPO.

The Board of Directors of the Company recommended in its meeting held on 14/10/1444H (corresponding to 27/04/2022G), to offer (6,000,000) six million shares, representing 30.0% of the Company's capital, for public subscription.

17-6-2 Approval of the Company's General Assembly.

The General Assembly of the Company, in its meeting held on 20/10/1444H (corresponding to 10/05/2023G), agreed to offer the Company's shares for public subscription and list them in the Exchange.

17-6-3 Approval of the Capital Market Authority on listing

The Capital Market Authority's approval was obtained on the request for registering and offering the Company's shares and on this Prospectus and all supporting documents requested by the Authority, on the date of its announcement on its official website on 22/05/1445H (corresponding to 06/12/2023G).

17-6-4 Approval of the Saudi Tadawul Company to list the shares

Approval was obtained from the Exchange (Saudi Tadawul) for listing the Company shares on 13/10/1445H (corresponding to 31/07/2023G).

17-7 Existing arrangements to prevent disposal of certain shares

Substantial Shareholders whose names appear in this Prospectus (see Section No. (5-2) «**Substantial Shareholders Who own 5% or more of the Company's Shares**» of this Prospectus) are prohibited from disposing of the shares they own before a period of six (6) months has passed from the date on which the Company's shares begin trading in the Exchange («**Lock-up Period**»), and they may dispose of their shares after the end of this period without obtaining prior approval from the Authority.

Other than this Lock-up Period imposed by the Authority on Substantial Shareholders, there are no other existing arrangements that prevent disposing of certain shares.

17-8 Declarations by Subscribers

By completing and submitting the Subscription Application Form, each Subscriber:

- agrees to subscribe for the number of Offer Shares specified in the Subscription Application Form;
- declares that they have read this Prospectus and understood all of its content;

- accepts the Company's Bylaws and all Offering instructions and terms mentioned in this Prospectus and the Subscription Application Form, and subscribes to the Offer Shares accordingly;
- confirms that he has not waived his right to claim the Company and recourse against it for any damage resulting from this Prospectus containing incorrect or insufficient essential information, or as a result of omitting essential information that directly affects the subscriber's acceptance of the subscription if it is added to the Prospectus.
- declares that they have not previously subscribed for any of the Company's Shares and that the Company shall have the right to reject any or all duplicate applications;
- accepts the number of Offer Shares allocated thereto (up to the maximum amount subscribed for) as per the Subscription Application Form; and
- undertakes not to cancel or amend the Subscription Application Form after submitting it to the Lead Manager or the Receiving Agent.

For further details regarding the allocation and refund of excess subscription monies, please see Section (17-4) «**Notification of Allocation and Refunds**») of this Prospectus.

17-9 Share Register and Dealing Arrangements

The Depository Center maintains a register of Shareholders that contains their names, nationalities, residence addresses, occupations, the shares they own and the amounts paid for such shares.

17-10 Saudi Exchange (Saudi Tadawul)

in 2001G as the successor to the Electronic Securities Information System. In 1990G, full electronic trading of Shares in KSA was introduced. The Tadawul system was established. Share trading occurs on the «**Tadawul**» system through a fully integrated trading system covering the entire trading process, from execution of the trade transaction through settlement thereof. Trading occurs each business day between 10:00 am and 3:00 pm from Sunday to Thursday, during which time orders are executed. However, outside such hours, orders may be entered, amended, or cancelled from 9:30 am to 10:00 am. These times change during the month of Ramadan as announced on the official website of Tadawul.

Transactions take place through the automatic matching of orders. Each valid order is accepted and generated according to the price level. In general, market orders (orders placed at best price) are executed first, followed by limit orders (orders place at a price limit), provided that, if several orders are generated at the same price, they are executed according to the time of entry.

The Tadawul system distributes a comprehensive range of information through various channels, most notably the Tadawul website and Tadawul Information Link, which supplies trading data in real time to information providers such as Reuters. Exchange transactions are settled on a T+2 basis, meaning that share ownership transfer takes place within two working days after the transaction is executed.

The Issuer required to disclose all material decisions and information to investors through Tadawul. Tadawul is responsible for monitoring the market as it is the operator of the mechanism through which the market operates in order to ensure fair and smooth trading in Shares.

17-11 Share Trading

An application was submitted to the Capital Market Authority to register and offer the Company's Shares for public subscription on the Exchange, and an application was also submitted to the Saudi Tadawul Company to list the Company's Shares on the Exchange.

It is expected that trading of the Shares will commence after the final allocation of such Shares and Tadawul's announcement of the start date for trading of the Shares. Following Listing, Saudi natural persons, non-Saudi natural persons residing in KSA and holding valid residence permits and citizens of GCC states, as well as companies, banks, and investment funds, will be permitted to trade in the Offer Shares once they are traded on the Exchange.

After registering the Shares with the Authority and listing them on the Exchange, citizens of the Kingdom, those with legal residency, Saudi and GCC companies, banks, and investment funds, and GCC citizens will be allowed to trade in Shares. Qualified Foreign Investor (QFI) will also be able to trade in the Company's Shares in accordance with the rules regulating the investment of qualified foreign financial institutions in shares. Strategic foreign investors are also entitled to trade in shares in accordance with the instructions regulating the ownership of foreign strategic investors. Non-GCC individuals residing outside the Kingdom and non-GCC institutions registered outside the Kingdom («**Foreign Investors**») also have the right to invest indirectly in shares by acquiring the economic benefit of the shares by entering into swap agreements (SWAP) through one of the licensed financial market institutions by the Authority to purchase shares listed on the Exchange and trade them for the benefit of foreign investors. It should be noted that under the swap agreements (SWAP), financial market institutions will be registered as statutory owners of those shares.

Furthermore, the Offer Shares may only be traded after allocated Offer Shares have been credited to Subscribers' accounts with Tadawul and the Company has been registered and its Shares listed on the Exchange. Subscribers entering into any pretrading activities will be acting at their own risk. The Company and Selling Shareholders shall have no legal responsibility in connection with pre-trading activities.

17-12 Miscellaneous Provisions

The Subscription Application Form and all related terms, conditions and covenants hereof shall be binding upon and inure to the benefit of the parties to the subscription and their respective successors, permitted assigns, executors, administrators and heirs, provided that, except as specifically contemplated herein, neither the Subscription Application Form nor any of the rights, interests or obligations arising pursuant thereto are delegated by any of the parties referred to in this Prospectus without the prior written consent of the other party.

These instructions, conditions and the receipt of any Subscription Application Forms or related contracts are governed, construed and enforced in accordance with the laws of the Kingdom of Saudi Arabia.

This Prospectus was issued in both Arabic and English, and only the Arabic version is approved by the Authority. In the event of any discrepancy between the Arabic and English texts, the Arabic text is the authentic one that shall be adopted and implemented.

It is expressly prohibited to distribute this Prospectus or sell the Offer Shares in any country other than the Kingdom, except for the category of qualified foreign financial institutions Provided that the regulations and instructions governing this shall be taken into account. All recipients of this Prospectus must review and adhere to all legal restrictions related to the Offering and sale of Offer Shares.

Subject to the requirements of the Rules on the Offer of Securities and Continuing Obligations, the Company must submit a supplementary Prospectus to the CMA if, at any time after the publication of this Prospectus and before completion of the Offering, the Company becomes aware that: (1) There has been a significant change in any material information contained in this Registration Document; (2) The occurrence of additional significant matters which would have been required to be included in this Registration Document. Except in the two circumstances mentioned above, the Company does not intend to update or otherwise revise any statements in this Registration Document, whether as a result of new information, future events or otherwise relating to the Company. As a result of the foregoing and other risks, assumptions and uncertainties, expectations of future events and conditions set out in this Document may not occur as expected by the Company or may not occur at all. Accordingly, potential qualified investors should examine all future statements in the light of these interpretations and not rely primarily on these forward-looking statements.



18

**Documents Available for
Inspection**

18- Documents Available for Inspection

The following documents will be available for viewing through a virtual data room, and the Financial Advisor «**Aldukheil Financial Group**» will send the electronic link to the virtual data room to the investors upon request via email «**info@aldukheil.com.sa**», during business days from Sunday 25/06/1445H (corresponding to 07/01/2024G) until Thursday 20/07/1445H (corresponding to 01/02/2024G) within a period of no less than (20) twenty days before end of the Offering Period:

1. The Commercial Registration of the Company.
2. The Company's By/Laws
3. The Company's Articles of Association and all amendments thereto.
4. A copy of the announcement of the Capital Market Authority's approval of the application to register and offer the shares on the Exchange.
5. Recommendation of the Company's Board of Directors regarding an application to register, offer and list the Company's shares in the Exchange.
6. The General Assembly's decision to approve the registration, offering and listing of the Company's shares in the Exchange.
7. Approval of the Saudi Tadawul Company (Saudi Tadawul) to the shares on the Exchange.
8. The Company's audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022G.
9. The reviewed consolidated financial statements for the six-month period ending on June 30, 2023.
10. A document explaining the mechanism that was relied upon to arrive at the price range used in the book building process.
11. Market study report prepared by the Market Study Advisor.
12. Underwriting Agreement.
13. All reports, letters and other documents, estimates of value and statements prepared by any expert and any part thereof included or referred to in this Prospectus.
14. Contracts and agreements disclosed in Section No. (12-6) «**Material Contracts**» and Section No. (12-6-1) «**Related Party Contracts and Transactions**» of this Prospectus.
15. Consent letters to include the name, logo and statement in the Prospectus for each of:
 - Financial Advisor and Bookrunner, Aldukheil Financial Group.
 - Lead Manager and Underwriter, «**Alinma Investment**».
 - Legal advisor, «**Mohammed Al-Dabaan and Partners Legal Consultation Company**.»
 - Financial Due Diligence Advisor, PricewaterhouseCoopers Certified Public Accountants.
 - Market Study Advisor, Euromonitor International Limited.
16. A consent letter from the Company's Auditor, «**KPMG Professional Consulting**,» to include the name, logo, and publication of the Company's audited consolidated financial statements for the fiscal years ending on December 31, 2020, 2021, and 2022G, and the reviewed consolidated financial statements for the six-month period ending on June 30, 2023, in the Prospectus.



19

The Financial Statements and Auditors Report

19- The Financial Statements and Auditors Report

19-1 Audited consolidated financial statements for the fiscal year ending on December 31, 2020G

**MIDDLE EAST PHARMACEUTICAL INDUSTRIES
COMPANY**
(Limited Liability Company)
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020
together with the
Independent Auditor's Report



KPMG Professional Services

Riyadh Front, Airport Road
P. O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia
Headquarter

Commercial Registration No 1010425494

كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
المركز الرئيسي

سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

Independent Auditors' Report

To the Shareholders of Middle East Pharmaceutical Industries Company

Opinion

We have audited the consolidated financial statements of Middle East Pharmaceutical Industries Company ("the Company") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with 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 Charge with Governance for the Consolidated Financial Statements

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

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

Those charged with governance, the Board of Director, are responsible for overseeing the Group's financial reporting process



Independent Auditors' Report

To the Shareholders of Middle East Pharmaceutical Industries Company (Continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

KPMG Professional Services

Fahad Mubark Aldossari
License No: 469

Al Riyadh, 28 Ramadan, 1442H
Corresponding to: 10 May 2021



MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(Limited Liability Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2020
(All amounts in Saudi Riyals unless otherwise stated)

	<i>Note</i>	31 December 2020	31 December 2019
<u>ASSETS</u>			
Cash and cash equivalents	6	15,923,866	20,133,927
Trade receivables	7	109,864,378	114,268,956
Prepayments and other current assets	8	16,898,732	15,238,609
Inventories	9	82,511,729	41,633,089
Current assets		225,198,705	191,274,581
Property, plant and equipment	10	94,723,716	68,424,278
Intangible assets	11	27,993,119	23,587,656
Equity investments	12	22,717,190	-
Non-current assets		145,434,025	92,011,934
Total assets		370,632,730	283,286,515
<u>LIABILITIES</u>			
Short-term loans	13	42,052,950	11,727,435
Long term loan – current portion	14	-	833,333
Trade and other payables		26,202,827	26,743,425
Accruals and other current liabilities	15	11,307,130	10,490,000
Due to a related party	18a	18,825	-
Zakat payable	16	5,182,820	3,872,094
Current liabilities		84,764,552	53,666,287
Long term loan	14	20,598,291	-
Post-employment benefits	17.1	12,841,022	12,232,155
Non-current liabilities		33,439,313	12,232,155
Total liabilities		118,203,865	65,898,442
Equity			
Share capital	19	60,000,000	60,000,000
Statutory reserve		19,308,236	19,308,236
Other reserve		(16,987)	1,323,817
Retained earnings		173,137,616	136,738,890
Equity attributable to owners of the Company		252,428,865	217,370,943
Non-controlling interest	18b	-	17,130
Total equity		252,428,865	217,388,073
Total equity and liabilities		370,632,730	283,286,515

The attached notes from 1 to 28 are an integral part of these consolidated financial statements.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(Limited Liability Company)
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
For the year ended 31 December 2020
(All amounts in of Saudi Riyals unless otherwise stated)

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Revenue	20	301,660,225	232,092,857
Cost of revenue	21	<u>(125,282,161)</u>	<u>(84,966,331)</u>
Gross profit		176,378,064	147,126,526
Selling and distribution expenses	22	(60,226,046)	(51,421,686)
General and administrative expenses	23	<u>(33,094,210)</u>	<u>(33,858,572)</u>
Operating profit		83,057,808	61,846,268
Other (expense)/ income		(46,948)	277,579
Impairment loss on trade receivables	7 (i)	(2,000,000)	(1,497,941)
Finance costs	24	<u>(3,197,967)</u>	<u>(2,868,608)</u>
Profit before zakat		77,812,893	57,757,298
Zakat expense	16.2	<u>(5,000,000)</u>	<u>(3,712,456)</u>
Profit for the year		72,812,893	54,044,842
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Re-measurements of defined benefit liability	17.1	<u>(1,340,804)</u>	<u>185,032</u>
Other comprehensive income for the year		(1,340,804)	185,032
Total comprehensive income for the year		71,472,089	54,229,874
Profit for the year attributable to:			
Owners of the Company		72,812,893	54,050,241
Non-controlling interests		<u>-</u>	<u>(5,399)</u>
		72,812,893	54,044,842
Total comprehensive income attributable to:			
Owners of the Company		71,472,089	54,235,273
Non-controlling interests		<u>-</u>	<u>(5,399)</u>
		71,472,089	54,229,874

The attached notes from 1 to 28 are an integral part of these consolidated financial statements.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(Limited Liability Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Other reserve	Total share holders' equity	Non- Controlling interest	Total equity
Balance at 1 January 2019	60,000,000	19,308,236	106,640,598	1,138,785	187,087,619	22,529	187,110,148
Profit for the year	-	-	54,050,241	-	54,050,241	(5,399)	54,044,842
Other comprehensive income	-	-	-	185,032	185,032	-	185,032
Total comprehensive income for the year	-	-	54,050,241	185,032	54,235,273	(5,399)	54,229,874
Dividends	-	-	(23,951,949)	-	(23,951,949)	-	(23,951,949)
Balance at 31 December 2019	60,000,000	19,308,236	136,738,890	1,323,817	217,370,943	17,130	217,388,073
Disposal of a subsidiary to shareholders of the Company	-	-	(154,167)	-	(154,167)	(17,130)	(171,297)
Profit for the year	-	-	72,812,893	-	72,812,893	-	72,812,893
Other comprehensive loss	-	-	-	(1,340,804)	(1,340,804)	-	(1,340,804)
Total comprehensive income for the year	-	-	72,812,893	(1,340,804)	71,472,089	-	71,472,089
Dividends	-	-	(36,260,000)	-	(36,260,000)	-	(36,260,000)
Balance at 31 December 2020	60,000,000	19,308,236	173,137,616	(16,987)	252,428,865	-	252,428,865

The attached notes from 1 to 28 are an integral part of these consolidated financial statements.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(Limited Liability Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2020
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	<u>Note</u>	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:			
Profit for the year		72,812,893	54,044,842
<i>Adjustments to reconcile net income to net cash flows from operating activities:</i>			
Depreciation	10	6,692,408	6,899,281
Amortization	11	2,169,024	1,790,566
Provision for post-employment benefits	17	1,957,853	2,694,937
Impairment loss on trade receivable	7	2,000,000	1,497,941
Provision for slow moving inventory	9	430,708	(272,367)
Zakat expense	16	5,000,000	3,712,456
Loss/(gain) on disposal of property, plant and equipment		1,252	(20,936)
Changes in operating assets and liabilities:			
Trade receivables		2,404,578	(7,692,856)
Prepayments and other assets		(1,660,123)	(7,108,444)
Inventories		(41,309,348)	3,540,028
Trade and other payables		(540,598)	1,481,239
Due to a related party		18,825	(688,051)
Accruals and other liabilities		817,130	3,116,087
Cash generated from operation activities		<u>50,794,602</u>	<u>62,994,723</u>
Zakat paid	16	(3,689,274)	(3,191,674)
Post-employment benefits paid	17	(2,689,790)	(1,210,070)
Net cash generated from operating activities		<u>44,415,538</u>	<u>58,592,979</u>
Cash Flows from Investing Activities:			
Acquisition of property, plant and equipment	10	(32,998,504)	(8,960,139)
Purchase of intangible assets	11	(6,574,487)	(7,035,881)
Acquisition of equity investments	12	(22,717,190)	-
Proceeds from disposal of property, plant and equipment		5,406	184,707
Disposal of a subsidiary to shareholders of the Company		(171,297)	
Net cash used in investing activities		<u>(62,456,072)</u>	<u>(15,811,313)</u>
Cash Flows from Financing Activities:			
Proceeds from loans during the year		104,704,863	38,926,256
Loans re-paid during the year		(54,614,390)	(46,087,081)
Dividends paid		(36,260,000)	(23,951,949)
Net cash generated from/(used in) financing activities		<u>13,830,473</u>	<u>(31,112,774)</u>
Net changes in cash and cash equivalents		(4,210,061)	11,668,892
Cash and cash equivalents at the beginning of year		20,133,927	8,465,035
Cash and cash equivalents at end of the year		<u>15,923,866</u>	<u>20,133,927</u>
Significant non-cash transactions:			
- Remeasurement of employee benefit liability	17	(1,340,804)	185,032

The attached notes from 1 to 28 are an integral part of these consolidated financial statements.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(Limited Liability Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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1. REPORTING ENTITY

Middle East Pharmaceutical Industries Company (“the Company”) is a Limited Liability Company incorporated in Riyadh, Kingdom of Saudi Arabia under Commercial Registration No. 1010150538 on 2 Rabi II 1419H (corresponding to 27 July 1998).

The Company’s registered office is located at the following address:

8146 King Muhammad V, Sulaimaniyah,
P.O. Box 4180
Riyadh 11491
Kingdom of Saudi Arabia

The Company has two main branches under its name which are registered under Commercial Registration No. 1010274622 and 1010394325, and has thirteen branches incorporated in the Kingdom of Saudi Arabia:

Branch name	Commercial registration number
Middle Pharmaceutical Industries Company Branch.	1010560224
Middle East Distribution Company Ltd.	1010175025
Middle East Warehouse Branch – Riyadh	1010206013
Middle East Warehouse Branch – Riyadh	1010416419
Middle East Distribution Branch – Riyadh	1010376488
Middle East Distribution Branch – Jeddah	4030278683
Middle East Distribution Branch – Jeddah	4030161826
Middle East Distribution Branch – Dammam	2050061104
Middle East Warehouse Branch – Riyadh	1010653235
Middle East Warehouse Branch – Riyadh	1010653236
Middle East Warehouse Branch – Riyadh	1010653238
Middle East Warehouse Branch – Riyadh	1010653239
Middle East Warehouse Branch – Riyadh	1010653240

The Company and its subsidiaries mentioned below (collectively referred to as “the Group”) is engaged in manufacturing medicines, medicated and non-medicated creams and gels.

Following subsidiaries are included in the consolidated financial statements as of 31 December 2020:

Name	Registered office	Cost of investment (In GBP*)	Percentage of ownership	
			Direct	Indirect
Avalon Pharma UK Holdings Limited	UK	1	100	-
Avalon Cosmetics Limited	UK	1	-	100
Avalon Pharma Limited	UK	1	-	100
Avalon Nutrition Limited	UK	1	-	100

*GBP – Great Britain Pound

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2. BASIS OF ACCOUNTING

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Chartered and Professional Accountants ("SOCPA") (hereinafter refer to as "IFRS as endorsed in KSA").

2.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for the post-employment benefits which is measured using the projected unit credit method and equity investments at Fair Value through Other Comprehensive Income (FVOCI) are measured at fair value.

2.3 Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyal (SAR) which is the functional currency of the Company. All amounts rounded to the nearest Saudi Riyal.

2.4 Basic of consolidation

a) Subsidiaries

Refer to note 3 for details on judgements applied by the Group in respect of determination of control.

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

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

A list of subsidiaries is provided in note 1 which also discloses the percentages of ownership.

b) Change in ownership interest

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interests;
- derecognizes the cumulative translation differences recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in the consolidated statement of profit or loss; and
- reclassifies the shareholders' share of components previously recognized in OCI to consolidated statement of profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

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2. BASIS OF ACCOUNTING (CONTINUED)

2.4 Basic of consolidation (continued)

When the Group ceases to consolidate for an investment in subsidiary because of a loss of control, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognized in the consolidated statement of profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognized in OCI in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in OCI are reclassified to the consolidated statement of profit or loss.

c) Non-controlling interests

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of changes in equity.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
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3. USE OF JUDGMENTS AND ESTIMATES

In preparing these consolidated financial statements, we make estimates and judgments that affect the amounts recorded. Actual results could differ from our estimates. Our estimates and judgments are based on historical experience and other factors we consider reasonable, including expectations of future events. Information about estimating uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2020 is included in the following notes:

- Notes 5.8 and 5.11: Impairment test - Trade receivables, property, plant and equipment and intangible assets.
- Notes 5.6 and 5.7: Estimated useful lives and residual values of property, plant and equipment and intangible assets.
- Note 16: Measurement of post-employment benefits obligations: key actuarial assumptions.
- Note 5.11: Expected credit loss (ECL). This requires considerable judgment as to how changes in economic factors affect ECLs.

3.1 Zakat

In calculating the zakat expense for the current year, the Company has adjusted its profit and applied certain deduction to its zakat base used to calculate the zakat expense. However, the zakat legislations of the General Authority of Zakat and Tax ("GAZT") in relation to those adjustments and deductions are not clear and as a result the Company's management made its best estimates for those assumptions based on industry practice and historical experience. Where GAZT assessments payable differ from the amounts recognized, such adjustments reflect changes in the estimated amounts to be paid to (recovered from) GAZT. Unless there is an indication that the adjustment is the result of an error, such changes are recognized in profit or loss as a change in estimate.

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

The Company applied IFRS 16 with a date of initial application of 1 January 2019 using the modified retrospective approach. The details of the changes in accounting policies are disclosed below.

A. Definition of a lease

Previously, the Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

B. As a lessee

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on statement of financial position. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on statement of financial position.

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4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets; and
- used hindsight when determining the lease term.

The Company decided to apply recognition exemptions to short-term leases. For leases of other assets, which were classified as operating under IAS 17, the Company recognised right-of-use assets and lease liabilities.

Under IFRS 16 at transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Company applied this approach to all other leases.

Leases classified as operating leases under IAS 17

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

C. As a lessor

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease.

Under IFRS 16, the Company is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. The Company does not have any sub lease assets.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Group in the preparation of these consolidated financial statements are set out below.

5.1 Classification of assets and liabilities to current and non-current

The Group 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 realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current

A liability is current when:

- It is expected to be settled in the 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
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.2 Fair Value Measurement

The Group measures its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or the most advantageous market for the asset or liability.

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

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

5.3 Foreign currencies

(i) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the consolidated statement of profit or loss and other comprehensive income.

5.4 Revenue recognition

The Group has applied IFRS 15. Information about the Group's accounting policies relating to contracts with customers is summarized below

The Group recognises revenue from contracts with customers based on a five-step model as set out in IFRS 15 and is given below:

Step 1 – Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met;

Step 2 – Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer;

Step 3 – Determine the transaction price: The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties;

Step 4 – Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.5 Revenue recognition

Step 5 – Recognize revenue when (or as) the entity satisfies a performance obligation.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- The Group’s performance does not create an asset with an alternate use to the Company and the Company has an enforceable right to payment for performance completed to date;
- The Group’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
- The customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs

For performance obligations where none of the above conditions are met, revenue is recognised at the point in time at which the performance obligation is satisfied

5.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost, net of accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Subsequent expenditure incurred is capitalized only if it is probable that future economic benefits associated with the expenditure will flow to the entity. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss account as incurred.

Depreciation is calculated from the date the item of property and equipment is available for its intended use. It is calculated on a straight-line basis over the useful life of the asset as follows:

<u>Asset category</u>	<u>Estimated useful life</u>
Building and leasehold improvements	20
Machineries	8
Furniture and office equipment	4
Motor vehicles	4
Computers	4
Tools	8

The assets’ residual values, useful lives and methods of depreciation are reviewed on an annual basis, and adjusted prospectively if appropriate, at each statement of financial position date.

Land and assets under construction, which are not ready for its intended use, are not depreciated.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognized.

An asset’s carrying amount is written-down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (note 5.8).

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.7 Intangible assets

Intangible assets represent software implementation cost, the costs of developing formulas and products and other deferred charges. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. Costs that are directly associated with identifiable software products and have probable economic benefit beyond one year are recognized as intangible assets. Costs associated with maintaining computer software products are recognized as an expense when incurred.

Intangible assets that are acquired by the Group and have finite lives are measured at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized using the straight-line method over the estimated years of benefit. The estimated years of amortization of the principal classes of other intangible assets is as follows:

<u>Asset category</u>	<u>Estimated useful life</u>
Software and licenses	10 years, 4 years
Registered developed products	5 years

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization years and the amortization method for an intangible asset with a finite useful life are reviewed on an annual basis. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortization year or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible asset. Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually either individually or at the aggregated cash generating unit level.

Gains or losses arising from derecognizing an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognized.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.8 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are combined at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or Group of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting year.

5.9 Inventories

Inventories, including goods available for sale and goods in transit are stated at the lower of cost and net realizable value.

Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to complete a sale.

5.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances, short-term deposits, demand deposits and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

5.11 Financial instruments

i- Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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5.12 Financial instruments (continued)

ii- Classification and measurement of financial assets and financial liabilities

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

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

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

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

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

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

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at Fair Value Through Profit and Loss (FVTPL)	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at Fair Value through Other Comprehensive Income (FVOCI)	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at Fair Value through Other Comprehensive Income (FVOCI)	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

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5.12 Financial instruments (continued)

The financial assets at amortised cost consist of trade receivables, contract assets and cash and cash equivalents.

Financial Liabilities – Classification, subsequent measurement and gain and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gain and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

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5.12 Financial instruments (continued)

Impairment of non-derivative financial assets

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost and contract assets. The Group measures loss allowances at an amount equal to lifetime ECLs.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 365 days past due from government and 180 days past due from commercial.

The Group considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is past due as per terms of agreement with customers.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the debtor;
- a breach of contract such as a default or being more than 180 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of impairment

Allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, including contract assets and finance lease receivables, are presented separately in the statement of profit or loss. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.13 Employee benefits and post-employment benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating leave 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 recognized in respect of employees' services up to the end of the reporting year and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the statement of financial position.

(ii) Post-employment obligation

The Company operates a single post-employment benefit scheme of defined benefit plans driven by the labor laws within the Kingdom of Saudi Arabia.

The post-employment benefits plans are not funded. Valuation of the obligations under those plans are carried out by an independent actuary based on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits are recognized immediately in the consolidated statement of profit or loss and other comprehensive income while unwinding of the liability at discount rates used are recorded as finance costs. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in other comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the year in which they occur, directly in other comprehensive income. They are included in retained earnings in the consolidated statement of changes in equity and in the consolidated statement of financial position.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in the statement of profit or loss as past service costs.

5.14 Zakat

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia on an accrual basis. The zakat expense is charged to the consolidated statement of profit or loss and other comprehensive income. Differences, if any, resulting from the final assessments are adjusted in the year of their finalization.

5.15 Dividends

Provision is made for the amount of any dividends declared being appropriately authorized and no longer at the discretion of the Company, on or before the end of the reporting year but not distributed at the end of the reporting year.

5.16 Statutory reserve

In accordance with the Regulations for Companies in Kingdom of Saudi Arabia, the Company is required to recognize a reserve comprising of 10% of its net income for the year. The Company will cease the contribution when such reserve will reach 30% of its Share Capital. The reserve is not available for distribution.

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6. CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Cash on hand	228,500	148,863
Cash at banks – current accounts	15,695,366	17,985,064
Short-term bank deposits	-	2,000,000
Total	15,923,866	20,133,927

7. TRADE RECEIVABLES

	31 December 2020	31 December 2019
Trade receivables	117,767,754	120,254,301
Less: Impairment loss on trade receivables	(7,903,376)	(5,985,345)
	109,864,378	114,268,956

Movement in the allowance for impairment in respect to trade receivables is as follows:

	31 December 2020	31 December 2019
Opening balance	5,985,345	4,487,404
Allowance for the year	2,000,000	1,497,941
Write offs during the year	(81,969)	-
Closing balance	7,903,376	5,985,345

8. PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December 2020	31 December 2019
Advances to suppliers	7,124,686	5,835,844
Margin on letters of credit and guarantee	2,350,501	1,891,074
VAT refundable	1,887,947	2,078,777
Prepaid insurance	1,604,318	1,850,427
Prepaid rent	1,028,262	579,021
Employee receivables	773,609	742,795
Prepaid subscription fees	828,423	956,161
Other	1,300,986	1,304,510
	16,898,732	15,238,609

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9. INVENTORIES

	31 December 2020	31 December 2019
Raw materials	51,348,734	24,995,090
Finished product	24,071,800	14,232,848
Consumable supplies	6,097,074	1,057,988
Spare parts inventory	1,424,984	615,066
Work-in-progress	322,693	1,054,945
	83,265,285	41,955,937
Less: Provision for slow-moving inventory	(753,556)	(322,848)
Inventories, net	82,511,729	41,633,089
	31 December 2020	31 December 2019
Opening balance	322,848	595,215
Add: provision for slow-moving inventory	4,531,586	5,247,293
Less: destruction during the year	(4,100,878)	(5,519,660)
	430,708	(272,367)
Balance at the end of the period	753,556	322,848

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10. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and leasehold improvements	Machineries	Furniture and office equipment	Motor vehicles	Computers	Tools	Assets under construction	Total
Cost:									
At 1 January 2020	10,192,286	53,795,191	24,758,641	5,451,440	3,837,826	3,510,999	9,411,215	4,246,934	115,204,532
Additions	--	349,830	8,542,296	415,343	133,000	265,406	595,532	22,697,097	32,998,504
Disposals	--	--	--	(118)	--	(60,278)	--	--	(60,396)
At 31 December 2020	10,192,286	54,145,021	33,300,937	5,866,665	3,970,826	3,716,127	10,006,747	26,944,031	148,142,640
Accumulated depreciation:									
At 1 January 2020	--	11,622,189	19,724,798	4,432,245	3,312,006	2,364,778	5,324,238	--	46,780,254
Charges for the year	--	2,545,796	2,121,663	401,727	280,822	456,848	885,552	--	6,692,408
Disposals	--	--	--	(117)	--	(53,621)	--	--	(53,738)
At 31 December 2020	--	14,167,985	21,846,461	4,833,855	3,592,828	2,768,005	6,209,790	--	53,418,924
Net book value:									
At 31 December 2020	10,192,286	39,977,035	11,454,476	1,032,810	377,997	948,122	3,796,957	26,944,031	94,723,716
At 31 December 2019	10,192,286	42,173,002	5,033,843	1,019,195	525,820	1,146,221	4,086,977	4,246,934	68,424,278

Depreciation has been allocated as follows:

	2020	2019
Cost of revenue (Note 21)		
Selling and distribution expense (Note 22)	4,134,237	4,395,482
General and administrative expenses (Note 23)	305,686	378,778
Total	2,252,485	2,125,021
	6,692,408	6,899,281

10.1 Assets under construction include the new warehouse for storage of raw materials and finished goods inventories. It also includes expansion of two existing factories to increase the production capacity. These are expected to be completed in 2021.

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11. INTANGIBLE ASSETS

	Software and licenses	Product development cost	Capital work in progress	Total
Cost:				
1 January 2020	7,771,129	22,016,970	55,747	29,843,846
Additions	105,880	6,468,607	-	6,574,487
Write-offs/disposals	-	-	-	-
Reclass	552,723	(552,723)	-	-
At 31 December 2020	8,429,732	27,932,854	55,747	36,418,333
Accumulated amortization:				
1 January 2020	1,253,930	5,002,260	-	6,256,190
Charge for the year	875,177	1,293,847	-	2,169,024
Write-offs/disposals	-	-	-	-
At 31 December 2020	2,129,107	6,296,107	-	8,425,214
Net book value:				
At 31 December 2020	6,300,625	21,636,747	55,747	27,993,119
At 31 December 2019	6,517,199	17,014,710	55,747	23,587,656

12. EQUITY INVESTMENTS

		31 December 2020	31 December 2019
Equity investments in:			
- Columbia Care International Holdco LLC	(12.1)	21,485,620	-
- Nuha Consultancy	(12.2)	1,090,816	-
- Emulsion Cosmetics Limited	(12.2)	140,754	-
		22,717,190	-

12.1 Columbia Care International Holdco LLC (CCIH)

On 28 July 2020, the Company purchased a five percent interest in CCIH in consideration for EUR 5,000,000 equivalent to SAR 21,485,620 rate prevailing on that date, which approximates the fair value as on 31 December 2020.

CCIH, a company registered in Delaware – USA, has not commenced the commercial operations, is a group company that is ultimately owned by Columbia Care Inc. Columbia Care Inc is one of the largest and most experienced cultivators, manufacturers and providers of medical and adult use cannabis products and related services with licenses in 18 US jurisdictions and the EU.

12.2 Nuha Consultancy and Emulsion Cosmetics Limited

During March 2020, Avalon Cosmetics Limited, an indirect fully owned subsidiary of the Company (refer Note 1), has purchased 15% shares each in Nuha Consultancy and Emulsion Cosmetics Limited, for a total consideration of SAR 1,090,816 and SAR 140,754 respectively, which approximate the fair value as on 31 December 2020.

Nuha Consultancy, incorporated in British Virgin Island and Emulsion Cosmetics Limited, incorporated in England and Wales, are engaged in retail sale of cosmetic and toilet articles in specialized stores.

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13. SHORT-TERM LOANS

The Company has obtained Murabahah and Musharika financing from various commercial banks at agreed commercial rates. The balance outstanding are as follow:

	31 December 2020	31 December 2019
Total	<u>42,052,950</u>	<u>11,727,435</u>

One of the local bank loans are secured by personal guarantees from the Company's shareholders.

Financial charges rates on loans are as follow:

Saudi Local Bank: Short-term loan	2.5% + IBOR
Saudi Local Bank: Short-term loan	2.5% + SIBOR
Financial Services Company	5%

14. LONG TERM LOANS

The long-term loan was taken from a local bank and is secured by personal guarantees of the Company's shareholders. Long-term loan bears commission at agreed commercial rates which is SIBOR plus 3% p.a. payable monthly.

Based on the loan repayment schedules, the outstanding balances as at period end are as follow:

	31 December 2020	31 December 2019
Current portion	-	833,333
Non-current portion	<u>20,598,291</u>	-
Total	<u>20,598,291</u>	<u>833,333</u>

15. ACCRUALS AND OTHER CURRENT LIABILITIES

	31 December 2020	31 December 2019
Salaries and related benefits	9,916,731	8,146,187
Customers with credit balances	634,825	555,526
Professional fees	147,500	117,500
Others	<u>608,074</u>	<u>1,670,787</u>
	<u>11,307,130</u>	<u>10,490,000</u>

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16. ZAKAT

16.1 Zakat base

As at the statement of financial position date, Zakat base was calculated based on the financial statements of the Company, as follows:

	31 December 2020	31 December 2019
Shareholders' equity at beginning of year	179,787,126	161,746,886
Adjusted net income	83,865,108	62,455,386
Additions	39,818,666	23,252,781
Deductions	(124,141,819)	(92,571,253)
Total (Zakat base)	<u>179,329,081</u>	<u>154,883,800</u>
<i>Zakat at 2.5% (higher of adjusted net income or Zakat base)</i>	4,622,536	3,872,094
Prior period under-assessments	-	(159,638)
Excess provision during the year	377,464	-
<i>Zakat expense during the year</i>	<u>5,000,000</u>	<u>3,712,456</u>

The "General Authority for Zakat and Income Tax ("GAZT") issued the last final assessment for the year ended 31 December 2017, and the Company has paid all the amounts based on the final assessment.

Zakat declaration for the year ended 31 December 2019 has been submitted to the GAZT. However, up to the date of this financial statement, there is no assessment has been finalized after the assessment finalized by GAZT for the year ended 31 December 2017.

16.2 Zakat provision

Movement in Zakat provision for the year is as follows:

	<i>Note</i>	31 December 2020	31 December 2019
Balance at beginning of the year		3,872,094	3,351,312
Provision for zakat for the year		5,000,000	3,712,456
		<u>8,872,094</u>	<u>7,063,768</u>
Payments made during the year		(3,689,274)	(3,191,674)
Balance at end of the year		<u>5,182,820</u>	<u>3,872,094</u>

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17. POST-EMPLOYMENT BENEFITS

The Company operates a defined benefit plan in line with labor law requirements applicable in the Kingdom of Saudi Arabia. The payments under this plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment.

All Company's employees' termination benefit plans are unfunded.

17.1 Amounts in the statement of financial position

The amounts recognized in the consolidated statement of financial position and the movements in the defined benefit obligation are as follows:

	31 December 2020	31 December 2019
Opening balance	12,232,155	10,932,320
<i>Recognized in the consolidated statement of profit or loss</i>		
Current service cost	1,439,956	2,143,243
Interest cost	517,897	551,694
	1,957,853	2,694,937
<i>Recognized in the consolidated statement of comprehensive income</i>		
Actuarial (gain) / loss	1,340,804	(185,032)
Settlements during the year	(2,689,790)	(1,210,070)
Closing balance	12,841,022	12,232,155

17.2 Significant actuarial assumptions

The significant actuarial assumptions used were as follows:

	31 December 2020	31 December 2019
<i>Economic assumptions:</i>		
Discount Rate	3.27%	3.9%
Mortality rates	75%	75%
Salary increase rate (long-service)	1.00%	1.00%
Salary increase rate (short service)	0.5%	0.5%
Rates of employee turnover	2%	1%
<i>Demographics assumptions</i>		
Number of employees	457	470
Average age of employees (years)	35.66	34.11
Average years of past service	5.26	4.60

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17. POST-EMPLOYMENT BENEFITS (CONTINUED)

17.3 Sensitivity analysis

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions made in the calculation is:

	<u>Change in assumption</u>	<u>31 December 2020 (net liability)</u>	<u>31 December 2019 (net liability)</u>
Long term salary increases	0.5% Decrease Base	13,484,706	11,186,375
	0.5% Increase	15,863,325	13,389,723
Discount rate	0.5% Decrease Base	15,837,398	13,361,496
	0.5% Increase	13,516,180	11,218,792

18. RELATED PARTIES TRANSACTIONS

Transactions with related parties carried out during the year, in the normal course of business, are approved by Group management. The transactions and balances with related parties are as follows:

a) Due to a related party:

	<u>2020</u>	<u>2019</u>
Comprehensive Distribution Company Limited (CDC)	<u>18,825</u>	<u>--</u>

b) Disposal of a subsidiary to shareholders of the Company

Effective 1 January 2020, the Board of Directors of the Group has decided to transfer the 90% shares of CDC to the shareholders of the Company under a restructuring arrangement at the carrying value as on 1 January 2020. The transaction is considered as a common control transaction with the shareholders and accordingly the carrying value of the investment is credited with the corresponding debit to retain earnings amounting to SAR 154,167. The equity of CDC and the carrying value of the investment as at that date is shown below:

	<u>1 January 2020</u>
Share capital	300,000
Statutory reserves	56,282
Accumulated losses	<u>(184,985)</u>
Equity	<u>171,297</u>
Shareholdings of the Company	90%
Carrying value of investment as at 1 January 2020	154,167
Non-controlling interest	<u>17,130</u>
Total	<u>171,297</u>

The transfer of shares in CDC to shareholders of the Company resulted in the elimination of non-controlling interest in the Group's consolidated financial statement, as at 31 December 2019 and 2020 non-controlling interest is as follows:

	<u>2020</u>	<u>2019</u>
Non-controlling interest	<u>-</u>	<u>17,130</u>

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18. RELATED PARTIES TRANSACTIONS (CONTINUED)

c) *Compensation and benefits to key managements personnel:*

	<u>2020</u>	<u>2019</u>
Short term employee benefits	6,546,808	5,130,043
Post-employment benefit	5,204,223	3,387,343
Total Compensation and benefits to key managements personnel	<u>11,751,031</u>	<u>8,517,386</u>

The compensation and benefits to key management personnel is allocated as follows:

	<u>2020</u>	<u>2019</u>
General and administrative expenses	8,099,371	6,854,211
Cost of revenue	2,798,926	848,651
Selling and distribution expense	852,734	814,524
Total	<u>11,751,031</u>	<u>8,517,386</u>

19. SHARE CAPITAL

	<u>No. of shares</u>	<u>Par value</u>	<u>Total</u>
Ordinary share capital	<u>80,000</u>	<u>750</u>	<u>60,000,000</u>

A list of the Company's shareholders and their shareholding as of 31 December 2019 and 31 December 2020 are as follows:

<u>Name of shareholder</u>	<u>No. of shares</u>	<u>Value (SAR)</u>	<u>Percentage (%)</u>
Ahmad Shaher Tabbaa	48,200	36,150,000	60.25
Ali Shahir Tabbaa	5,280	3,960,000	6.60
Faisal Shahir Tabbaa	5,120	3,840,000	6.40
Faisal Al Jaman	3,000	2,250,000	3.75
Talal Yousef Mahmoud Zahid	16,800	12,600,000	21.00
Yousef Talal Zahid	1,600	1,200,000	2.00
	<u>80,000</u>	<u>60,000,000</u>	<u>100.00</u>

20. REVENUE

The breakdown of revenue by customer type is as follows:

	<u>2020</u>	<u>2019</u>
<i>Revenue from:</i>		
Retail customers	190,917,523	158,396,831
Public customers	88,160,264	52,567,961
Export customers	22,582,438	21,128,065
	<u>301,660,225</u>	<u>232,092,857</u>

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21. COST OF REVENUE

	<u>2020</u>	<u>2019</u>
Raw materials consumption	44,995,660	21,506,451
Packaging materials consumption	39,065,832	26,375,941
Salaries and other related benefits	19,988,736	18,441,862
Depreciation (Note 10)	4,134,237	4,395,482
Amortization	123,937	106,411
Other overhead	16,973,759	14,140,184
	<u>125,282,161</u>	<u>84,966,331</u>

22. SELLING AND DISTRIBUTION EXPENSES

	<u>2020</u>	<u>2019</u>
Salaries and other related benefits	22,869,687	20,726,325
Selling and marketing expenses	15,571,586	10,766,456
Housing and accommodation expenses	5,574,153	5,289,869
Freight	4,804,081	3,072,855
Travelling expenses	3,875,225	4,405,775
Employees' medical insurance	1,459,130	1,243,009
Legal and government fees	1,176,932	728,212
Employees' visa and iqama	1,112,303	701,042
Rent expenses	996,798	900,664
Employees' GOSI expenses	798,937	778,361
Employees' vacation expenses	636,805	686,575
Employees' end of service expenses	479,711	972,139
Vehicle expenses	342,943	358,022
Depreciation (Note 10)	305,686	378,778
Repairs and maintenance	173,324	201,307
Communication expenses	48,745	41,017
Others	-	171,280
	<u>60,226,046</u>	<u>51,421,686</u>

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23. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2020</u>	<u>2019</u>
Salaries and other related benefits	14,847,715	14,266,409
Communication expenses	3,171,445	2,018,482
Housing and accommodation expenses	2,694,265	3,258,167
Depreciation (Note 10)	2,252,485	2,125,021
Amortization	2,045,087	1,684,155
Professional fees	1,334,059	1,192,263
Travelling expenses	825,886	1,972,894
Repairs and maintenance	792,851	317,045
Consumables expenses	761,470	473,109
Employees' medical insurance	754,705	808,478
Rented labor	692,766	835,906
Employee GOSI expenses	644,688	801,786
Electricity	619,300	512,689
Employees' end of service expenses	447,684	1,094,413
Employees' visa and iqama	421,549	804,908
Legal and government fees	306,052	951,765
Printing and stationeries	173,891	194,039
Rent expense	138,333	200,948
Employees' vacation expenses	134,931	305,079
Others	35,048	41,016
	<u>33,094,210</u>	<u>33,858,572</u>

24. FINANCE COSTS

	<u>2020</u>	<u>2019</u>
Bank charges on financing	1,484,890	1,089,015
Credit facilities and loans finance costs	1,195,179	1,227,899
Net interest cost: post-employment benefits (note 16.1)	517,898	551,694
	<u>3,197,967</u>	<u>2,868,608</u>

25. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT

The effect of initially applying IFRS 9 on the Group's financial instruments is described in note 5.2. Due to the transition method chosen, comparative information has not been restated to reflect the new requirements.

Accounting classification and fair values

The carrying amount of financial assets and financial liabilities is a reasonable approximation of the respective financial assets and financial liabilities fair value.

Financial risk management

The Group has exposure to the following risk arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(Limited Liability Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020
(All amounts in Saudi Riyals unless otherwise stated)

25. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

The carrying amounts of financial assets and contract assets represent the maximum credit exposure.

Impairment losses on financial assets recognized in profit or loss were as follows:

	<u>2020</u>	<u>2019</u>
Impairment loss on trade receivables arising from contracts with customers	2,000,000	1,497,941

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry in which the customers operate.

The Group a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered to the customer. Management ensures that sales made to customers are within the respective customers credit limit.

The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of six months for its customers.

In monitoring customer credit risk, customers are combined according to their credit characteristics, including whether they are retail, public or export customers; their geographic location; and the existence of previous and current financial difficulties.

The credit risk of bank balances is limited as cash balances are held with banks with sound credit ratings ranging from BBB+ to A+.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(Limited Liability Company)
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(All amounts in Saudi Riyals unless otherwise stated)

25. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

The exposure to credit risk for trade receivables by type of counterparty was as follows:

	Carrying amount	
	31 December 2020	31 December 2019
Retail customers (see a below)	47,709,561	55,100,355
Public customers (see b below)	64,285,992	58,984,698
Export customers (see c below)	5,772,201	6,169,248
Total gross carrying amount	117,767,754	120,254,301
Loss allowance	(7,903,376)	(5,985,345)
	109,864,378	114,268,956

The ageing of trade receivables that were past due but not impaired is as follows:

	31 December 2020	31 December 2019
Due but not impaired	109,864,378	114,268,956
Due and Impaired	7,903,376	5,985,345
	117,767,754	120,254,301

The Group uses an allowance matrix to measure expected credit losses (ECLs) of trade receivables from individual customers, which comprise a very large number of small balances. Loss rates are calculated using a “roll rate” method based on the probability of a receivable progressing through successive stages of delinquency to write off. These rates are multiplied by scalar factors to reflect differences in economic conditions during the period over which the historical data has been collected, current conditions and the Group’s view of economic conditions over the expected lives of the receivables. Any customers wherein there is specific indicators or factors which lead management to believe that the recovery of the amount is doubtful are provided for separately.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(Limited Liability Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(All amounts in Saudi Riyals unless otherwise stated)

25. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

a) Retail customers:

The following table provides information about the exposure to credit risk and ECLs for trade receivables for retail customers:

31 December 2020			
	<i>Weighted-average loss rate</i>	<i>Gross carrying amount</i>	<i>Impairment loss allowance</i>
Current (not past due)	0.0%	39,633,429	-
1 to 30 past due	20.32%	548,580	(111,448)
31 to 60 past due	28.41%	18,144	(5,155)
61 to 90 past due	35.99%	647	(233)
91 to 180 past due	59.60%	9	(5)
181 to 365 past due	89.17%	8	(7)
More than 365 past due	100%	7,508,744	(7,508,744)
	-	<u>47,709,561</u>	<u>(7,625,592)</u>

31 December 2019			
	<i>Weighted-average loss rate</i>	<i>Gross carrying amount</i>	<i>Impairment loss allowance</i>
Current (not past due)	0.96%	46,178,115	(451,516)
1 to 30 past due	17.46%	598,436	(104,487)
31 to 60 past due	25.86%	364,564	(94,276)
61 to 90 past due	48.61%	371,111	(180,397)
91 to 180 past due	13.04%	338,173	(44,098)
181 to 365 past due	19.76%	2,793,733	(552,042)
More than 365 past due	100%	4,456,223	(4,456,223)
	-	<u>55,100,355</u>	<u>(5,883,039)</u>

b) Public customers:

Regarding public customers, the Group has analyzed historic collections, historic defaults, scalar factors and the nature of the individual debtor balances. Based on the aforementioned factors, management of the Group have concluded that public customers carry minimal credit risk. As such, the Group has provided 1.0% for all amounts exceeding 360 days for such customers. The total expected credit losses for such customers is SR 277,784 and SR 102,306 as at 31 December 2020 and 31 December 2019, respectively. There has been no adjustment to comparative figures as the effect of the implementation of the credit losses model as at 31 December 2019 has not resulted in a significant adjustment to the impairment allowance on that date.

c) Export customers:

The Group's exposure to credit losses on export debtors is not significant as export customers pay in advanced before delivery and are not past due.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(Limited Liability Company)
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For the year ended 31 December 2020
(All amounts in Saudi Riyals unless otherwise stated)

25. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Group's future commitments. Following are the contractual maturities at the end of the reporting period of financial liabilities. The amounts are grossed and undiscounted and include estimated interest payments.

	31 December 2020			
	<i><u>Carrying amount</u></i>	<i><u>Less than 1 year</u></i>	<i><u>1 year to 5 years</u></i>	<i><u>More than 5 years</u></i>
Liabilities				
Long term-loans	20,598,291	-	20,598,291	-
Short term loans	42,052,950	42,052,950	-	-
Trade and other payables	26,202,827	26,137,136	65,691	-
TOTAL	88,854,068	68,190,086	20,663,982	-

	31 December 2019			
	<i><u>Carrying Amount</u></i>	<i><u>Less than 1 year</u></i>	<i><u>1 year to 5 years</u></i>	<i><u>More than 5 years</u></i>
Liabilities				
Long term-loans	833,333	833,333	-	-
Short term loans	11,727,435	11,427,435	-	-
Trade and other payables	26,743,425	26,163,032	580,393	-
TOTAL	39,304,193	38,423,800	580,393	-

iii) Market risk

Market risk is the risk that changes in the market prices – such as foreign exchange rates and commission rates– will affect the Group's income or the value of its holdings of financial instruments.

iv) Currency Risk

This is a risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that's not the Group's functional currency. The Group has transactions denominated in Euros, U.S. dollars, Great Britain Pounds, Swiss Francs, United Arab Emirates Dirhams and Egyptian Pounds. Management monitors the fluctuations in currency exchange rates, and the effect of the currency fluctuation has been accounted for in the consolidated financial statements.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(Limited Liability Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020
(All amounts in Saudi Riyals unless otherwise stated)

25. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

At the end of the year, the Group had the following significant net currency exposures in foreign currencies. Presented below are the monetary assets and liabilities, net in foreign currencies:

<i>Foreign currency exposures</i>	31 December <u>2020</u>	31 December <u>2019</u>
United States Dollar	956,789	1,205,721
Great Britain Pound	215,301	27,110
UAE Dirham (AED)	187,682	-
Euro	27,266	802,294
Swiss Franc	18,869	18,912

Given the fact that the Saudi Riyal is pegged to the US Dollar and the historic performance of the US Dollar against the other currencies listed above, coupled with the values in each respective foreign currency, the Group does not have significant exposure to fluctuations in foreign currencies.

26. COMMITMENTS AND CONTINGENCIES

Contingencies

	31 December <u>2020</u>	31 December <u>2019</u>
Letters of credit	22,416,670	14,469,666
Letters of guarantees	<u>10,754,690</u>	<u>7,249,674</u>
	<u>33,171,360</u>	<u>21,719,340</u>

27. EVENTS AFTER THE REPORTING DATE

There have been no significant subsequent events since the balance sheet date that would have a material impact on these consolidated financial statements.

28. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the shareholder for issuance on 28 Ramadan 1442H corresponding to 10 May 2021.

**19-2 Audited consolidated financial statements for the fiscal year ending on
December 31, 2021G**

**MIDDLE EAST PHARMACEUTICAL INDUSTRIES
COMPANY**
(Limited Liability Company)
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021
together with the
Independent Auditor's Report



KPMG Professional Services

Riyadh Front, Airport Road
P. O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia
Commercial Registration No. 1010425494

Headquarters in Riyadh

كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

المركز الرئيسي في الرياض

Independent Auditors' Report

To the Shareholders of Middle East Pharmaceutical Industries Company

Opinion

We have audited the consolidated financial statements of Middle East Pharmaceutical Industries Company ("the Company") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

Key audit matter is this matter that, in our professional judgment, was of the most significance in our audit of the consolidated financial statements of the current year. This matter was addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Independent Auditors' Report

To the Shareholders of Middle East Pharmaceutical Industries Company (continued)

Key audit matter

Revenue recognition

Refer to Note 4.4 of the accounting policy related to revenue recognition, and note 22 related to disclosure.

Key audit matter

Revenue recognised during the year ended 31 December 2021, amounting to SR 287 million (2020: SR 301 million).

The revenue recognition is considered as a key audit matter since the revenue is a key measure of the Company's performance and there is risk that revenue may be overstated resulting from pressure management may feel to achieve performance targets.

How the matter was address In our audit

Our audit procedures performed with relation to revenue included, among others, the following:

- Assessing the appropriateness of the revenue recognition policy that is applied to different products and combination of products to assess whether it is in accordance with the applicable accounting framework;
- Assessing the design and implementation and tested the operating effectiveness of controls relating to processes over revenue recognition, including anti-fraud control procedures.
- Performing various analytical reviews of the revenue recognised during the year.
- Testing the supported documents for a samples of revenue transactions recognised during the year.
- Assessing the appropriateness of the amount estimated and recorded for the value of rights of return.

Expected credit losses (ECL)

Refer to Note 4.11 of the accounting policy related to revenue recognition, and 7 related to disclosure.

The gross balance of trade receivables amounting to SR 172 million as at December 31, 2021 (December 31, 2020: SR 117.8 million) against which the Group has established expected credit loss (ECL) allowance of SR 7.9 million as at December 31, 2021 (December 31, 2020: SR 7.9 million) In accordance with the requirements of IFRS 9, "Financial Instruments."

Management has applied the simplified ECL approach to determine the allowance.

The loss allowance for financial assets are based on assumptions related default risk and expected loss rates. The group uses judgement in making these assumptions and selecting inputs to calculate allowance, based on the Group's prior experience, current market conditions as each reporting period.

We considered this as a key audit matter due to the level of judgement applied and the estimate made in the ECL calculation.

Our audit procedures included, among others:

- assessing the appropriateness of the Group's policy for determining the allowances to assess whether it is in accordance with the applicable accounting framework
- Evaluating the suitability of the expected credit loss model on related financial assets and its suitability to the requirements of the standard.
- Obtaining an understanding of management's procedures in establishing the allowance and evaluating the design and implementation of controls in determining the ECL provision.
- Verifying the main data sources and inputs used in the ECL model and evaluating the appropriateness of judgments and estimates that were used in the ECL calculation.
- Obtaining the aging report for the trade receivables to insure the same is used for the ECL.
- Reviewing the assumption used including the economic factors.



Independent Auditors' Report

To the Shareholders of Middle East Pharmaceutical Industries Company (continued)

Other Information

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

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

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

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

Responsibilities of Management and Those Charge with Governance for the Consolidated Financial Statements

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

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

Those charged with governance, the Board of Director, are responsible for overseeing the Group's financial reporting process

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Independent Auditors' Report

To the Shareholders of Middle East Pharmaceutical Industries Company (continued)

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

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

KPMG Professional Services

Fahad Mubark Aldossari
License No: 469

Al Riyadh, 8 Shawwal, 1443H
Corresponding to: 9 May 2022



MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(Limited Liability Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2021
(All amounts in Saudi Riyals unless otherwise stated)

	<u>Note</u>	31 December 2021	31 December <u>2020</u>
<u>ASSETS</u>			
Property, plant and equipment	11	103,454,701	94,723,716
Intangible assets	12	34,291,807	27,993,119
Equity investments	13	9,815,578	22,717,190
Non-current assets		<u>147,562,086</u>	<u>145,434,025</u>
Cash and cash equivalents	7	19,035,572	15,923,866
Trade receivables	8	164,366,014	109,864,378
Prepayments and other current assets	9	11,512,816	16,898,732
Inventories	10	74,451,275	82,511,729
Current assets		<u>269,365,677</u>	<u>225,198,705</u>
Total assets		<u>416,927,763</u>	<u>370,632,730</u>
<u>EQUITY</u>			
Share capital	20	60,000,000	60,000,000
Statutory reserve		19,308,236	19,308,236
Other reserve		(14,447,828)	(16,987)
Retained earnings		202,220,693	173,137,616
Total equity		<u>267,081,101</u>	<u>252,428,865</u>
<u>LIABILITIES</u>			
Loans and bowing	15	15,844,840	20,598,291
Post-employment benefits	18.1	16,611,345	12,841,022
Non- current liabilities		<u>32,456,185</u>	<u>33,439,313</u>
Short-term loans	14	66,436,956	42,052,950
Loans and bowing – current portion	15	4,753,451	-
Trade and other payables		32,732,211	26,202,827
Accruals and other current liabilities	16	8,320,800	11,307,130
Due to shareholders		356,283	-
Due to a related party	19a	-	18,825
Zakat payable	17a	4,790,776	5,182,820
Current liabilities		<u>117,390,477</u>	<u>84,764,552</u>
Total liabilities		<u>149,846,662</u>	<u>118,203,865</u>
Total equity and liabilities		<u>416,927,763</u>	<u>370,632,730</u>

The attached notes from 1 to 30 are an integral part of these consolidated financial statements.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(Limited Liability Company)
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
For the year ended 31 December 2021
(All amounts in of Saudi Riyals unless otherwise stated)

	<u>Note</u>	<u>2021</u>	<u>2020</u>
Revenue	21	287,222,069	301,660,225
Cost of revenue	22	<u>(112,643,860)</u>	<u>(125,282,161)</u>
Gross profit		<u>174,578,209</u>	<u>176,378,064</u>
Selling and distribution expenses	23	(62,261,218)	(60,226,046)
General and administrative expenses	24	(35,799,838)	(33,094,210)
Impairment loss on trade receivables	8 (i)	-	(2,000,000)
Other (expense)/ income		<u>(2,618,186)</u>	<u>(46,948)</u>
Operating profit		<u>73,898,967</u>	<u>(95,367,204)</u>
Finance costs	25	<u>(3,439,080)</u>	<u>(3,197,967)</u>
Profit before zakat		<u>70,459,887</u>	<u>77,812,893</u>
Zakat expense	17	<u>(4,176,810)</u>	<u>(5,000,000)</u>
Profit for the year		<u>66,283,077</u>	<u>72,812,893</u>
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Impairment loss on equity investments at Fair Value through Other Comprehensive Income (FVOCI)	13.1	(10,311,650)	-
Re-measurements of defined benefit liability	18.1	<u>(4,119,191)</u>	<u>(1,340,804)</u>
Other comprehensive loss for the year		<u>(14,430,841)</u>	<u>(1,340,804)</u>
Total comprehensive income for the year		<u>51,852,236</u>	<u>71,472,089</u>

The attached notes from 1 to 30 are an integral part of these consolidated financial statements.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(Limited Liability Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

(All amounts in Saudi Riyals unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Other reserve	Total share holders' equity	Non- Controlling interest	Total equity
Balance at 1 January 2020	60,000,000	19,308,236	136,738,890	1,323,817	217,370,943	17,130	217,388,073
Disposal of a subsidiary to shareholders of the Company	-	-	(154,167)	-	(154,167)	(17,130)	(171,297)
Profit for the year	-	-	72,812,893	-	72,812,893	-	72,812,893
Other comprehensive income	-	-	-	(1,340,804)	(1,340,804)	-	(1,340,804)
Total comprehensive income for the year	-	-	72,812,893	(1,340,804)	71,472,089	-	71,472,089
Dividends	-	-	(36,260,000)	-	(36,260,000)	-	(36,260,000)
Balance at 31 December 2020	60,000,000	19,308,236	173,137,616	(16,987)	252,428,865	-	252,428,865
Profit for the year	-	-	66,283,077	-	66,283,077	-	66,283,077
Other comprehensive loss	-	-	-	(14,430,841)	(14,430,841)	-	(14,430,841)
Total comprehensive income for the year	-	-	-	(14,430,841)	51,852,236	-	51,852,236
Dividends	-	-	(37,200,000)	-	(37,200,000)	-	(37,200,000)
Balance at 31 December 2021	60,000,000	19,308,236	202,220,693	(14,447,828)	267,081,101	-	267,081,101

The attached notes from 1 to 30 are an integral part of these consolidated financial statements.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(Limited Liability Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2021
(All amounts in Saudi Riyals unless otherwise stated)

	<u>Note</u>	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:			
Profit for the year		66,283,077	72,812,893
<i>Adjustments to reconcile net income to net cash flows from operating activities:</i>			
Depreciation	11	6,701,580	6,692,408
Amortization	12	2,868,242	2,169,024
Loss on conversion of Columbia Care shares	13.1	2,756,457	
Provision for post-employment benefits	18	1,910,149	1,957,853
Impairment loss on trade receivable	8	-	2,000,000
Provision (reversal) for slow moving inventory	10	(127,533)	430,708
Zakat expense	17	4,176,810	5,000,000
Loss on disposal of intangible assets	12	78,359	-
(Gain)/Loss on disposal of property, plant and equipment		(43,992)	1,252
Changes in operating assets and liabilities:			
Trade receivables		(54,501,636)	2,404,578
Prepayments and other current assets		5,385,916	(1,660,123)
Inventories		8,187,986	(41,309,348)
Trade and other payables		6,529,384	(540,598)
Due to shareholder		356,283	-
Due to a related party		(18,825)	18,825
Accruals and other current liabilities		(2,986,330)	817,130
Cash generated from operating activities		<u>47,555,928</u>	<u>50,794,602</u>
Zakat paid	17	(4,573,596)	(3,689,274)
Post-employment benefits paid	18	(2,265,737)	(2,689,790)
Net cash generated from operating activities		<u>40,716,595</u>	<u>44,415,538</u>
Cash Flows from Investing Activities:			
Acquisition of property, plant and equipment	11	(15,432,777)	(32,998,504)
Purchase of intangible assets	12	(9,245,289)	(6,574,487)
Acquisition of equity investments	13	(166,491)	(22,717,190)
Proceeds from disposal of property, plant and equipment		44,205	5,406
Disposal of a subsidiary to shareholders of the Company		-	(171,297)
Net cash used in investing activities		<u>(24,800,352)</u>	<u>(62,456,072)</u>
Cash Flows from Financing Activities:			
Proceeds from loans during the year		83,516,906	125,303,154
Loans re-paid during the year		(59,132,900)	(75,212,681)
Dividends paid		(37,200,000)	(36,260,000)
Net cash generated from/(used in) financing activities		<u>(12,815,994)</u>	<u>13,830,473</u>
Net changes in cash and cash equivalents		2,119,399	(4,210,061)
Cash and cash equivalents at the beginning of year		<u>15,923,866</u>	<u>20,133,927</u>
Cash and cash equivalents at end of the year		<u>19,035,572</u>	<u>15,923,866</u>
Significant non-cash transactions:			
- Remeasurement of employee benefit liability	18	(4,119,191)	(1,340,804)

The attached notes from 1 to 30 are an integral part of these consolidated financial statements.

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1. REPORTING ENTITY

Middle East Pharmaceutical Industries Company (“the Company”) is a Limited Liability Company incorporated in Riyadh, Kingdom of Saudi Arabia under Commercial Registration No. 1010150538 on 2 Rabi II 1419H (corresponding to 27 July 1998).

The Company’s registered office is located at the following address:

8146 King Muhammad V, Sulaimaniyah,
P.O. Box 4180
Riyadh 11491
Kingdom of Saudi Arabia

The shareholders of the company have decided to covert the operation of Comprehensive Distribution Company Limited (CDC) to be a branch of the company on 7 Rabi ul Awal 1443H (corresponding to 13 October 2021) *see note 19*. CDC’s main Commercial Registration (CR) No. 1010252567 and its branch CR No. 1010462110 were both cancelled. A new CR No. 1010252567 was issued.

The Company has two main branches under its name which are registered under Commercial Registration No. 1010274622 and 1010394325, and has sixteen branches incorporated in the Kingdom of Saudi Arabia:

Branch name	Commercial registration number
Middle Pharmaceutical Industries Company Branch.	1010560224
Middle East Distribution Company Ltd.	1010175025
Middle East Warehouse Branch – Riyadh	1010206013
Middle East Warehouse Branch – Riyadh	1010416419
Middle East Distribution Branch – Riyadh	1010376488
Middle East Distribution Branch – Jeddah	4030278683
Middle East Distribution Branch – Jeddah	4030161826
Middle East Distribution Branch – Dammam	2050061104
Middle East Warehouse Branch – Riyadh	1010653235
Middle East Warehouse Branch – Riyadh	1010653236
Middle East Warehouse Branch – Riyadh	1010653238
Middle East Warehouse Branch – Riyadh	1010653239
Middle East Warehouse Branch – Riyadh	1010653240
Middle Pharmaceutical Industries Company-Riyadh	1010755320
Middle Pharmaceutical Industries Company-Riyadh	1010728546
Comprehensive Distribution Company-Riyadh	1010252567

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1. REPORTING ENTITY (CONTINUED)

The Company and its subsidiaries mentioned below (collectively referred to as “the Group”) is engaged in manufacturing medicines, medicated and non-medicated creams and gels.

Following subsidiaries are included in the consolidated financial statements as of 31 December 2021:

Name	Registered office	Cost of investment (In GBP*)	Number of shares	Percentage of ownership	
				Direct	Indirect
Avalon Pharma UK Holdings Limited	UK	1	1	100	-
Avalon Cosmetics Limited	UK	1	1	-	100
Avalon Pharma Limited	UK	1	1	-	100
Avalon Nutrition Limited	UK	1	1	-	100

*GBP – Great Britain Pound

2. BASIS OF ACCOUNTING

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Chartered and Professional Accountants (“SOCPA”) (hereinafter refer to as “IFRS as endorsed in KSA”).

2.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for the post-employment benefits which is measured using the projected unit credit method and equity investments at Fair Value through Other Comprehensive Income (FVOCI) are measured at fair value.

2.3 Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyal (SAR) which is the functional currency of the Company. All amounts rounded to the nearest Saudi Riyal.

2.4 Basic of consolidation

a) Subsidiaries

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

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2. BASIS OF ACCOUNTING (CONTINUED)

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

A list of subsidiaries is provided in note 1 which also discloses the percentages of ownership.

b) Change in ownership interest

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interests;
- derecognizes the cumulative translation differences recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in the consolidated statement of profit or loss; and
- reclassifies the shareholders' share of components previously recognized in OCI to consolidated statement of profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

When the Group ceases to consolidate for an investment in subsidiary because of a loss of control, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognized in the consolidated statement of profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognized in OCI in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in OCI are reclassified to the consolidated statement of profit or loss.

c) Non-controlling interests

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of changes in equity.

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3. USE OF JUDGMENTS AND ESTIMATES

In preparing these consolidated financial statements, we make estimates and judgments that affect the amounts recorded. Actual results could differ from our estimates. Our estimates and judgments are based on historical experience and other factors we consider reasonable, including expectations of future events. Information about estimating uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2021 is included in the following notes:

- Notes 5.8 and 5.11: Impairment test - Trade receivables, property, plant and equipment and intangible assets.
- Notes 5.6 and 5.7: Estimated useful lives and residual values of property, plant and equipment and intangible assets.
- Note 17: Measurement of post-employment benefits obligations: key actuarial assumptions.
- Note 5.11: Expected credit loss (ECL). This requires considerable judgment as to how changes in economic factors affect ECLs.

3.1 Zakat

In calculating the zakat expense for the current year, the Company has adjusted its profit and applied certain deduction to its zakat base used to calculate the zakat expense. Where ZATCA assessments payable differ from the amounts recognized, such adjustments reflect changes in the estimated amounts to be paid to (recovered from) ZATCA. Unless there is an indication that the adjustment is the result of an error, such changes are recognized in profit or loss as a change in estimate.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Group in the preparation of these consolidated financial statements are set out below.

4.1 Classification of assets and liabilities to current and non-current

The Group 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 realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current

A liability is current when:

- It is expected to be settled in the 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
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2 Fair Value Measurement

The Group measures its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or the most advantageous market for the asset or liability.

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

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

4.3 Foreign currencies

Transactions and balances

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the consolidated statement of profit or loss and other comprehensive income, respectively.

4.4 Revenue recognition

The Group has applied IFRS 15. Information about the Group's accounting policies relating to contracts with customers is summarized below

The Group recognises revenue from contracts with customers based on a five-step model as set out in IFRS 15 and is given below:

Step 1 – Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met;

Step 2 – Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer;

Step 3 – Determine the transaction price: The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties;

Step 4 – Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.5 Revenue recognition

Step 5 – Recognize revenue when (or as) the entity satisfies a performance obligation.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- The Group’s performance does not create an asset with an alternate use to the Company and the Company has an enforceable right to payment for performance completed to date;
- The Group’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
- The customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs

For performance obligations where none of the above conditions are met, revenue is recognised at the point in time at which the performance obligation is satisfied

4.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost, net of accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Subsequent expenditure incurred is capitalized only if it is probable that future economic benefits associated with the expenditure will flow to the entity. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss account as incurred.

Depreciation is calculated from the date the item of property and equipment is available for its intended use. It is calculated on a straight-line basis over the useful life of the asset as follows:

<u>Asset category</u>	<u>Estimated useful life</u>
Building and leasehold improvements	20
Machineries	8
Furniture and office equipment	4
Motor vehicles	4
Computers	4
Tools	8

The assets’ residual values, useful lives and methods of depreciation are reviewed on an annual basis, and adjusted prospectively if appropriate, at each statement of financial position date.

Land and assets under construction, which are not ready for its intended use, are not depreciated.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognized.

An asset’s carrying amount is written-down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (note 4.8).

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7 Intangible assets

Intangible assets represent software implementation cost, the costs of developing formulas and products and other deferred charges. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. Costs that are directly associated with identifiable software products and have probable economic benefit beyond one year are recognized as intangible assets. Costs associated with maintaining computer software products are recognized as an expense when incurred.

Intangible assets that are acquired by the Group and have finite lives are measured at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized using the straight-line method over the estimated years of benefit. The estimated years of amortization of the principal classes of other intangible assets is as follows:

<u>Asset category</u>	<u>Estimated useful life</u>
Software and licenses	10 years, 4 years
Registered developed products	5 years

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization years and the amortization method for an intangible asset with a finite useful life are reviewed on an annual basis. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortization year or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible asset. Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually either individually or at the aggregated cash generating unit level.

Gains or losses arising from derecognizing an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognized.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.8 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are combined at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or Group of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting year.

4.9 Inventories

Inventories, including goods available for sale and goods in transit are stated at the lower of cost and net realizable value.

Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to complete a sale.

4.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances, short-term deposits, demand deposits and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

4.11 Financial instruments

i- Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.12 Financial instruments (continued)

ii- Classification and measurement of financial assets and financial liabilities

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

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

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

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

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

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

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at Fair Value Through Profit and Loss (FVTPL)	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at Fair Value through Other Comprehensive Income (FVOCI)	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at Fair Value through Other Comprehensive Income (FVOCI)	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.12 Financial instruments (continued)

The financial assets at amortised cost consist of trade receivables, contract assets and cash and cash equivalents.

Financial Liabilities – Classification, subsequent measurement and gain and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gain and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.12 Financial instruments (continued)

Impairment of non-derivative financial assets

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost and contract assets. The Group measures loss allowances at an amount equal to lifetime ECLs.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 365 days past due from government and 180 days past due from commercial.

The Group considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is past due as per terms of agreement with customers.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the debtor;
- a breach of contract such as a default or being more than 180 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of impairment

Allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, including contract assets and finance lease receivables, are presented separately in the statement of profit or loss. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.13 Employee benefits and post-employment benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating leave 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 recognized in respect of employees' services up to the end of the reporting year and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the statement of financial position.

(ii) Post-employment obligation

The Company operates a single post-employment benefit scheme of defined benefit plans driven by the labor laws within the Kingdom of Saudi Arabia.

The post-employment benefits plans are not funded. Valuation of the obligations under those plans are carried out by an independent actuary based on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits are recognized immediately in the consolidated statement of profit or loss and other comprehensive income while unwinding of the liability at discount rates used are recorded as finance costs. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in other comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the year in which they occur, directly in other comprehensive income. They are included in retained earnings in the consolidated statement of changes in equity and in the consolidated statement of financial position.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in the statement of profit or loss as past service costs.

5.14 Zakat

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax (ZATCA) in the Kingdom of Saudi Arabia on an accrual basis. The zakat expense is charged to the consolidated statement of profit or loss and other comprehensive income. Differences, if any, resulting from the final assessments are adjusted in the year of their finalization.

5.15 Dividends

Provision is made for the amount of any dividends declared being appropriately authorized and no longer at the discretion of the Company, on or before the end of the reporting year but not distributed at the end of the reporting year.

5.16 Statutory reserve

In accordance with the Regulations for Companies in Kingdom of Saudi Arabia, the Company is required to recognize a reserve comprising of 10% of its net income for the year. The Company will cease the contribution when such reserve reaches 30% of its Share Capital. The reserve is not available for distribution.

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6. STANDARD ISSUED BUT NOT YET EFFECTIVE

The following are number of new standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

- Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).
- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16).b
- Annual Improvements to IFRS Standards 2018–2020.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).c
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to IAS 8).

The new and amended standards mentioned above are not expected to have a significant impact on the Group's consolidated financial statements.

7. CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
Cash on hand	103,058	228,500
Cash at banks – current accounts	18,932,514	15,695,366
Total	19,035,572	15,923,866

8. TRADE RECEIVABLES

	31 December 2021	31 December 2020
Trade receivables	172,269,390	117,767,754
Less: Impairment loss on trade receivables	(7,903,376)	(7,903,376)
	164,366,014	109,864,378

Movement in the allowance for impairment in respect to trade receivables is as follows:

	31 December 2021	31 December 2020
Opening balance	7,903,376	5,985,345
Allowance for the year	-	2,000,000
Write offs during the year	-	(81,969)
Closing balance	7,903,376	7,903,376

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9. PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December 2021	31 December <u>2020</u>
Advances to suppliers	3,020,565	7,124,686
Prepaid insurance	1,887,158	1,604,318
VAT refundable	1,762,630	1,887,947
Margin on letters of credit and guarantee	1,566,866	2,350,501
Employee receivables	922,096	773,609
Prepaid rent	865,207	1,028,262
Prepaid subscription fees	290,377	828,423
Other	1,197,917	1,300,986
	<u>11,512,816</u>	<u>16,898,732</u>

10. INVENTORIES

	31 December 2021	31 December <u>2020</u>
Raw materials	41,611,947	51,348,734
Finished product	24,110,731	24,071,800
Consumable supplies	6,337,115	6,097,074
Spare parts inventory	2,760,314	1,424,984
Work-in-progress	257,191	322,693
	<u>75,077,298</u>	<u>83,265,285</u>
Less: Provision for slow-moving inventory	(626,023)	(753,556)
Inventories, net	<u>74,451,275</u>	<u>82,511,729</u>

	31 December 2021	31 December <u>2020</u>
Opening balance	753,556	322,848
Add: provision for slow-moving inventory	4,725,805	4,531,586
Less: destruction during the year	(4,853,338)	(4,100,878)
	(127,533)	430,708
Balance at the end of the period	<u>626,023</u>	<u>753,556</u>

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11. PROPERTY, PLANT AND EQUIPMENT

Cost:	Land	Buildings and leasehold improvements	Machineries	Furniture and office equipment	Motor vehicles	Computers	Tools	Assets under construction	Total
At 1 January 2021	10,192,286	54,145,021	33,300,937	5,866,665	3,970,826	3,716,127	10,006,747	26,944,031	148,142,640
Additions	-	47,117	1,528,679	580,943	247,578	658,474	682,019	11,678,967	15,432,777
Disposals	-	-	-	(17,802)	(207,683)	(9,550)	-	-	(235,035)
Reclass	-	-	(7,372,200)	-	-	-	-	7,372,200	-
At 31 December 2021	10,192,286	54,192,138	27,457,416	6,429,806	4,010,721	4,365,051	10,688,766	45,995,198	163,331,382
Accumulated depreciation:									
At 1 January 2021	-	14,167,985	21,846,461	4,833,855	3,592,828	2,768,005	6,209,790	-	53,418,924
Charges for the year	-	2,554,934	2,112,939	438,235	234,663	467,840	892,969	-	6,701,580
Disposals	-	-	-	(17,802)	(207,683)	(9,338)	-	-	(234,823)
At 31 December 2021	-	16,722,919	23,959,400	5,254,288	3,619,808	3,226,507	7,102,759	-	59,885,681
Net book value:									
At 31 December 2021	10,192,286	37,469,219	3,498,016	1,175,518	390,913	1,138,544	3,586,007	45,995,198	103,454,701
At 31 December 2020	10,192,286	39,977,035	11,454,476	1,032,810	377,997	948,122	3,796,957	26,944,031	94,723,716

Depreciation has been allocated as follows:

	2021	2020
Cost of revenue (Note 21)	4,205,615	4,134,237
Selling and distribution expense (Note 22)	281,039	305,686
General and administrative expenses (Note 23)	2,214,926	2,252,485
Total	6,701,580	6,692,408

10.1 Assets under construction include the new warehouse for storage of raw materials and finished goods inventories. It also includes expansion of two existing factories to increase the production capacity. These are expected to be completed in next year.

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12. INTANGIBLE ASSETS

	<u>Software and licenses</u>	<u>Product development cost</u>	<u>Capital work in progress</u>	<u>Total</u>
Cost:				
1 January 2021	8,429,732	27,932,854	55,747	36,418,333
Additions	251,589	8,993,700	-	9,245,289
Write-offs/disposals	-	(674,728)	(55,747)	(730,475)
At 31 December 2021	8,681,321	36,251,826	-	44,933,147
Accumulated amortization:				
1 January 2021	2,129,107	6,296,107	-	8,425,214
Charge for the year	810,494	2,057,748	-	2,868,242
Write-offs/disposals	-	(652,116)	-	(652,116)
At 31 December 2021	2,939,601	7,701,739	-	10,641,340
Net book value:				
At 31 December 2021	5,741,720	28,550,087	-	34,291,807
At 31 December 2020	6,300,625	21,636,747	55,747	27,993,119

13. EQUITY INVESTMENTS

The Group designated the investments shown below as equity securities at FVOCI because these equity securities represent investments that the Group intends to hold for the long term for strategic purposes.

	31 December 2021	31 December 2020
Equity investments in:		
- Columbia Care Inc.	(12.1) 8,417,517	21,485,620
- Nuha Consultancy	(12.2) 1,090,816	1,090,816
- Emulsion Cosmetics Limited	(12.2) 307,245	140,754
	9,815,578	22,717,190

13.1 Columbia Care Inc (CCI)

- a) On 28 July 2020, the Company purchased 5% shares in CCIH in consideration for EUR 5,000,000 (equivalent to SAR 21,485,620), which approximates the fair value as on 31 December 2020.
- b) On 12 March 2021, a share redemption agreement (“the agreement”) was entered by the Company with following parties:
- i. Columbia Care International HoldCo LLC (“CCIH”), a Delaware limited liability company;
 - ii. Columbia Care Inc (“CCI”), a company listed on NEO Exchange, Canada; and
 - iii. Columbia Care LLC (“CC”), a Delaware limited liability company and a wholly owned subsidiary of CCI.

Under the agreement, the 5% shares of CCIH, owned by the Company, were exchanged for 783,805 shares of CCI at the 20-days VWAP price of CAD 7.95 per share, totaling to CAD 6,231,250 (equivalent to SAR 18,729,163). Accordingly, the Company has recorded a loss on disposal of CCIH shares amounting to SAR 2,756,457.

- c) At 31 December 2021, the market price of CCI share was CAD 3.62 per share, which resulted into a total fair value loss amounting to SAR 10,311,650.

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d) EQUITY INVESTMENTS (CONTINUED)

13.2 Nuha Consultancy and Emulsion Cosmetics Limited

Nuha Consultancy, incorporated in British Virgin Island and Emulsion Cosmetics Limited, incorporated in England and Wales, are engaged in retail sale of cosmetic and toilet articles in specialized stores.

During March 2020, Avalon Cosmetics Limited, an indirect fully owned subsidiary of the Company (refer Note 1), has purchased 15% shares each in Nuha Consultancy and Emulsion Cosmetics Limited, for a total consideration of SAR 1,090,816 and SAR 140,754, respectively.

On 8 April 2021 and 21 December 2021, Avalon Cosmetics Limited has contributed an additional capital amounting to SAR 73,352 and SAR 93,139, respectively in Emulsion Cosmetics Limited. Accordingly, as at 31 December 2021, investment in Emulsion Cosmetics Limited amounted to SAR 307,245.

The initial considerations paid for these equity securities approximates the fair value as at 31 December 2021.

e) SHORT-TERM LOANS

The Company has obtained Murabahah and Musharika financing from various commercial banks at agreed commercial rates. The balance outstanding are as follow:

	31 December 2021	31 December 2020
Total	<u>66,436,956</u>	<u>42,052,950</u>

Movement of the short-term loans is as follows:

	31 December 2021	31 December 2020
Opening balance	42,052,950	11,727,435
Proceeds from loans during the year	83,516,906	104,704,863
Loan-repayments during the year	(59,132,900)	(74,379,348)
Closing balance	<u>66,436,956</u>	<u>42,052,906</u>

One of the local bank loans are secured by personal guarantees from the Company's shareholders.

Financial charges rates on loans are as follow:

Saudi Local Bank: Short-term loan	2.5% + IBOR
Saudi Local Bank: Short-term loan	2.5% + SIBOR
Financial Services Company	5%

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f) LOANS AND BOROWING

The long-term loan was taken from a local bank and is secured by personal guarantees of the Company's shareholders. Long-term loan bears commission at agreed commercial rates which is SIBOR plus 3% p.a. payable monthly.

Based on the loan repayment schedules, the outstanding balances as at period end are as follow:

	31 December 2021	31 December 2020
Current portion	4,753,451	-
Non-current portion	15,844,840	20,598,291
Total	20,598,291	20,598,291

Movement of the long-term loans is as follows:

	31 December 2021	31 December 2020
Opening balance	20,598,291	833,333
Proceeds from loans during the year	-	20,598,291
Loan-repayments during the year	-	(833,333)
Closing balance	20,598,291	20,598,291

g) ACCRUALS AND OTHER CURRENT LIABILITIES

	31 December 2021	31 December 2020
Salaries and related benefits	7,156,373	9,916,731
Customers with credit balances	352,395	634,825
Professional fees	150,440	147,500
Others	661,592	608,074
	8,320,800	11,307,130

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h) ZAKAT

17.1 Zakat base

As at the statement of financial position date, Zakat base was calculated based on the financial statements of the Company, as follows:

	31 December 2021	31 December <u>2020</u>
Shareholders' equity at beginning of year	215,245,853	179,787,126
Adjusted net income	77,158,439	83,865,108
Additions	35,613,494	39,818,666
Deductions	(140,506,822)	(124,141,819)
Total (Zakat base)	187,510,964	179,329,081
Zakat at 2.5% (higher of adjusted net income or Zakat base)	4,687,774	4,622,536
Excess from previous year provision	(610,468)	-
Additional provision during the year	99,504	377,464
Zakat expense during the year	4,176,810	5,000,000

The "General Authority for Zakat and Income Tax ("ZATCA") issued the last final assessment for the year ended 31 December 2017, and the Company has paid all the amounts based on the final assessment.

Zakat declaration for the year ended 31 December 2020 has been submitted to the ZATCA. However, up to the date of this financial statement, there is no assessment has been finalized after the assessment finalized by ZATCA for the year ended 31 December 2017.

17.2 Zakat provision

Movement in Zakat provision for the year is as follows:

	<i>Note</i>	31 December 2021	31 December <u>2020</u>
Balance at beginning of the year		5,182,820	3,872,094
CDC, balance at the beginning of the year	18	3,498	-
Adjusted beginning balance		5,186,318	3,872,094
Provision for zakat for the year		4,176,810	5,000,000
		9,363,128	8,872,094
CDC, shortage from previous year	18	1,244	-
Payments made during the year		(4,573,596)	(3,689,274)
Balance at end of the year		4,790,776	5,182,820

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i) POST-EMPLOYMENT BENEFITS

The Group operates a defined benefit plan in line with labor law requirements applicable in the Kingdom of Saudi Arabia. The payments under this plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment.

All Group's employees' termination benefit plans are unfunded.

18.1 Amounts in the statement of financial position

The amounts recognized in the consolidated statement of financial position and the movements in the defined benefit obligation are as follows:

	Note	31 December <u>2021</u>	31 December <u>2020</u>
Opening balance		12,841,022	12,232,155
CDC, balance at the beginning of the year	18	<u>6,721</u>	-
Adjusted beginning balance		12,847,743	12,232,155
<i>Recognized in the consolidated statement of profit or loss</i>			
Current service cost		1,414,265	1,439,956
Interest cost		495,884	517,897
		1,910,149	1,957,853
<i>Recognized in the consolidated statement of comprehensive income</i>			
Actuarial (gain) / loss		4,119,191	1,340,804
Settlements during the year		<u>(2,265,737)</u>	<u>(2,689,790)</u>
Closing balance		<u>16,611,346</u>	<u>12,841,022</u>

18.2 Significant actuarial assumptions

The significant actuarial assumptions used were as follows:

	31 December <u>2021</u>	31 December <u>2020</u>
<i>Economic assumptions:</i>		
Discount Rate	3.67%	3.27%
Mortality rates	-	75%
Salary increase rate (long-service)	7.36%	1.00%
Salary increase rate (short service)	-	0.5%
Rates of employee turnover	14%	2%
<i>Demographics assumptions</i>		
Number of employees	504	457
Average age of employees (years)	36.65	35.66
Average years of past service	5.51	5.26

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18. POST-EMPLOYMENT BENEFITS (CONTINUED)

18.3 Sensitivity analysis

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions made in the calculation is:

	Change in assumption	31 December 2021 (net liability)	31 December 2020 (net liability)
Long term salary increases	0.5% Decrease Base	18,917,276	13,484,706
	0.5% Increase	19,662,486	15,863,325
Discount rate	0.5% Decrease Base	19,678,127	15,837,398
	0.5% Increase	18,906,235	13,516,180

19. RELATED PARTIES TRANSACTIONS

Transactions with related parties carried out during the year, in the normal course of business, are approved by Group management. The transactions and balances with related parties are as follows:

a. *Due from (to) a related party:*

	2021	2020
Comprehensive Distribution Company Limited (CDC)	-	18,825

b. *Due from a related party:*

	2021	2020
Avalon Pharma UK Holdings Limited	1,398,061	1,231,570

The figure above was related to the amount receivable by the Company from Avalon Pharma UK Holdings Company arising from the investment of Avalon Cosmetics Limited, a fully owned subsidiary of the Avalon Pharma UK Holdings Company to Emulsion Cosmetics and Nuha Consultancy in 2021 and 2020 (refer to Note 13.2).

c. *Disposal of a subsidiary to shareholders of the Company*

Effective 1 January 2020, the Board of Directors of the Group has decided to transfer the 90% shares of CDC to the shareholders of the Company under a restructuring arrangement at the carrying value as on 1 January 2020. The transaction is considered as a common control transaction with the shareholders and accordingly the carrying value of the investment is credited with the corresponding debit to retain earnings amounting to SAR 154,167. The equity of CDC and the carrying value of the investment as at that date is shown below:

	1 January 2020
Share capital	300,000
Statutory reserves	56,282
Accumulated losses	(226,756)
Equity	129,526
Shareholdings of the Company	
Carrying value of investment as at 1 January 2021	
Non-controlling interest	-
Total	129,526

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19. RELATED PARTIES TRANSACTIONS (CONTINUED)

d. CDC as a branch of Middle East Pharmaceutical Company (MEPI)

On 7 Rabi ul Awal 1443H (corresponding to 13 October 2021), the shareholders of the company decided to convert the operation of CDC to be a branch of MEPI. Hence, it ceased to be a related party. On the date of the conversion, the net assets of CDC were transferred to MEPI:

Cash and cash equivalents	485,903
Prepayments and other current assets	2,383
Property and equipment	300,000
Accumulated depreciation	(300,000)
Accruals and other current liabilities	(120,829)
Post-employment benefits	(11,175)
Net Assets	356,282

e. Compensation and benefits to key managements personnel:

	<u>2021</u>	<u>2020</u>
Short term employee benefits	7,126,069	6,546,808
Post-employment benefit	6,502,617	5,204,223
Total Compensation and benefits to key managements personnel	13,628,686	11,751,031

The compensation and benefits to key management personnel is allocated as follows:

	<u>2021</u>	<u>2020</u>
General and administrative expenses	9,566,773	8,099,371
Cost of revenue	3,105,937	2,798,926
Selling and distribution expense	955,976	852,734
Total	13,628,686	11,751,031

20. SHARE CAPITAL

	<u>No. of shares</u>	<u>Par value</u>	<u>Total</u>
Ordinary share capital	80,000	750.00	60,000,000

A list of the Company's shareholders and their shareholding as of **31 December 2020 and 31 December 2021** are as follows:

<u>Name of shareholder</u>	<u>No. of shares</u>	<u>Value (SAR)</u>	<u>Percentage (%)</u>
Ahmad Shaher Tabbaa	48,200	36,150,000	60.25
Ali Shahir Tabbaa	5,280	3,960,000	6.60
Faisal Shahir Tabbaa	5,120	3,840,000	6.40
Faisal Al Jaman	3,000	2,250,000	3.75
Talal Yousef Mahmoud Zahid	16,800	12,600,000	21.00
Yousef Talal Zahid	1,600	1,200,000	2.00
	80,000	60,000,000	100.00

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21. REVENUE

The breakdown of revenue by **customer type** is as follows:

	<u>2021</u>	<u>2020</u>
<i>Revenue from:</i>		
Retail customers	194,141,569	190,917,523
Public customers	65,638,989	88,160,264
Export customers	27,441,511	22,582,438
	<u>287,222,069</u>	<u>301,660,225</u>

The following table represents the segregation of revenue by **geographical market**:

	<u>2021</u>	<u>2020</u>
Local	259,780,558	279,077,787
Export	27,441,511	22,582,438
	<u>287,222,069</u>	<u>301,660,225</u>

Furthermore, the following table represents the segregation of revenue by **product line**:

	<u>2021</u>	<u>2020</u>
Medicine	157,704,536	113,507,138
Cosmetics	129,517,533	188,153,087
	<u>287,222,069</u>	<u>301,660,225</u>

22. COST OF REVENUE

	<u>2021</u>	<u>2020</u>
Raw materials consumption	33,671,146	44,995,660
Packaging materials consumption	34,542,125	39,065,832
Salaries and other related benefits	21,979,309	19,988,736
Depreciation (Note 10)	4,205,615	4,134,237
Amortization	14,082	123,937
Other overhead	18,231,583	16,973,759
	<u>112,643,860</u>	<u>125,282,161</u>

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23. SELLING AND DISTRIBUTION EXPENSES

	<u>2021</u>	<u>2020</u>
Salaries and other related benefits	23,225,248	22,869,687
Selling and marketing expenses	17,469,603	15,571,586
Housing and accommodation expenses	6,153,969	5,574,153
Freight	3,640,278	4,804,081
Employees' transportation allowance	2,915,731	2,631,305
Travelling expenses	1,590,093	1,243,920
Employees' medical insurance	1,409,689	1,459,130
Employees' GOSI expenses	1,318,671	798,937
Rent expenses	918,141	996,798
Employees' visa and iqama	915,887	1,112,303
Legal and government fees	791,095	1,176,932
Employees' vacation expenses	726,537	636,805
Employees' end of service expenses	354,668	479,711
Vehicle expenses	352,378	342,943
Depreciation (Note 10)	281,039	305,686
Repairs and maintenance	173,924	173,324
Communication expenses	24,267	48,745
	<u>62,261,218</u>	<u>60,226,046</u>

24. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2021</u>	<u>2020</u>
Salaries and other related benefits	14,366,882	14,847,715
Communication expenses	3,131,316	3,171,445
Housing and accommodation expenses	3,072,739	2,694,265
Amortization	2,854,159	2,045,087
Depreciation (Note 10)	2,214,926	2,252,485
Legal and government fees	1,586,258	306,052
Professional fees	1,512,034	1,334,059
Employees' transportation allowance	845,611	751,569
Employee GOSI expenses	844,124	644,688
Employees' medical insurance	778,170	754,705
Consumables expenses	720,068	761,470
Electricity	647,974	619,300
Repairs and maintenance	647,290	792,851
Rented labor	569,193	692,766
Employees' visa and iqama	486,208	421,549
Travelling expenses	396,184	74,317
Employees' end of service expenses	298,827	447,684
Printing and stationeries	261,793	173,891
Employees' vacation expenses	195,360	134,931
Rent expense	168,584	138,333
Others	202,138	35,048
	<u>35,799,838</u>	<u>33,094,210</u>

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(Limited Liability Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021
(All amounts in Saudi Riyals unless otherwise stated)

25. FINANCE COSTS

	<u>2021</u>	<u>2020</u>
Bank charges on financing	1,077,303	1,484,890
Credit facilities and loans finance costs	1,865,893	1,195,179
Net interest cost: post-employment benefits (note 17.1)	495,884	517,898
	3,439,080	3,197,967

26. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT

The effect of initially applying IFRS 9 on the Group's financial instruments is described in note 5.2. Due to the transition method chosen, comparative information has not been restated to reflect the new requirements.

Accounting classification and fair values

The carrying amount of financial assets and financial liabilities is a reasonable approximation of the respective financial assets and financial liabilities fair value.

Financial risk management

The Group has exposure to the following risk arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

The carrying amounts of financial assets and contract assets represent the maximum credit exposure.

Impairment losses on financial assets recognized in profit or loss were as follows:

	<u>2021</u>	<u>2020</u>
Impairment loss on trade receivables arising from contracts with customers	-	2,000,000

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry in which the customers operate.

The Group a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered to the customer. Management ensures that sales made to customers are within the respective customers credit limit.

The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of six months for its customers.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(Limited Liability Company)
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For the year ended 31 December 2021
(All amounts in Saudi Riyals unless otherwise stated)

26. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

In monitoring customer credit risk, customers are combined according to their credit characteristics, including whether they are retail, public or export customers; their geographic location; and the existence of previous and current financial difficulties.

The credit risk of bank balances is limited as cash balances are held with banks with sound credit ratings ranging from BBB+ to A+.

The exposure to credit risk for trade receivables by type of counterparty was as follows:

	Carrying amount	
	31 December	31 December
	<u>2021</u>	<u>2020</u>
Retail customers (see a below)	72,376,191	47,709,561
Public customers (see b below)	91,914,982	64,285,992
Export customers (see c below)	7,978,217	5,772,201
Total gross carrying amount	<u>172,269,390</u>	<u>117,767,754</u>
Loss allowance	<u>(7,903,376)</u>	<u>(7,903,376)</u>
	<u>164,366,014</u>	<u>109,864,378</u>

The ageing of trade receivables that were past due but not impaired is as follows:

	31 December	31 December
	<u>2021</u>	<u>2020</u>
Due but not impaired	164,366,014	109,864,378
Due and Impaired	<u>7,903,376</u>	<u>7,903,376</u>
	<u>172,269,390</u>	<u>117,767,754</u>

The Group uses an allowance matrix to measure expected credit losses (ECLs) of trade receivables from individual customers, which comprise a very large number of small balances. Loss rates are calculated using a “roll rate” method based on the probability of a receivable progressing through successive stages of delinquency to write off. These rates are multiplied by scalar factors to reflect differences in economic conditions during the period over which the historical data has been collected, current conditions and the Group’s view of economic conditions over the expected lives of the receivables. Any customers wherein there is specific indicators or factors which lead management to believe that the recovery of the amount is doubtful are provided for separately.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(Limited Liability Company)
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For the year ended 31 December 2021
(All amounts in Saudi Riyals unless otherwise stated)

26. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

a) *Retail customers:*

The following table provides information about the exposure to credit risk and ECLs for trade receivables for retail customers:

31 December 2021			
	<i>Weighted-average loss rate</i>	<i>Gross carrying amount</i>	<i>Impairment loss allowance</i>
Current (not past due)	0.0%	64,923,037	-
1 to 30 past due	5.91%	739,035	(43,657)
31 to 60 past due	10.55%	595,103	(62,796)
61 to 90 past due	15.64%	261,530	(40,893)
91 to 180 past due	31.90%	461,437	(147,176)
181 to 365 past due	67.40%	509,509	(343,416)
More than 365 past due	100%	4,886,540	(4,886,540)
	-	72,376,191	(5,524,478)
Excess provision	-	-	(1,961,310)
		72,376,191	(7,485,788)

31 December 2020			
	<i>Weighted-average loss rate</i>	<i>Gross carrying amount</i>	<i>Impairment loss allowance</i>
Current (not past due)	0.0%	39,633,429	-
1 to 30 past due	20.32%	548,580	(111,448)
31 to 60 past due	28.41%	18,144	(5,155)
61 to 90 past due	35.99%	647	(233)
91 to 180 past due	59.60%	9	(5)
181 to 365 past due	89.17%	8	(7)
More than 365 past due	100%	7,508,744	(7,508,744)
	-	47,709,561	(7,625,592)

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(Limited Liability Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021
(All amounts in Saudi Riyals unless otherwise stated)

26. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

b) Public customers:

Regarding public customers, the Group has analyzed historic collections, historic defaults, scalar factors and the nature of the individual debtor balances. Based on the aforementioned factors, management of the Group have concluded that public customers carry minimal credit risk. As such, the Group has provided 1.0% for all amounts exceeding 360 days for such customers. The total expected credit losses for such customers is SR 417,588 and SR 277,784 as at 31 December 2021 and 31 December 2020, respectively. There has been no adjustment to comparative figures as the effect of the implementation of the credit losses model as at 31 December 2021 has not resulted in a significant adjustment to the impairment allowance on that date.

c) Export customers:

The Group's exposure to credit losses on export debtors is not significant as export customers pay in advanced and/or are secured by letter of credits before delivery and are not past due.

ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Group's future commitments. Following are the contractual maturities at the end of the reporting period of financial liabilities. The amounts are grossed and undiscounted and include estimated interest payments except for the long-term loans where the borrowing cost was already paid in advanced. The borrowing cost amounting to SR 320,010.30 paid in March 2021 was capitalized as part of the cost of the newly built warehouse of the Group.

	31 December 2021			
	<i><u>Carrying amount</u></i>	<i><u>Less than 1 year</u></i>	<i><u>1 year to 5 years</u></i>	<i><u>More than 5 years</u></i>
Liabilities				
Long term-loans	15,844,840	-	15,844,840	-
Short term loans	71,190,408	71,190,408	-	-
Trade and other payables	32,732,211	32,732,211		-
Accruals and other current liabilities	8,320,800	8,320,800		
TOTAL	119,767,459	103,265,369	16,502,089	-
		31 December 2020		
	<i><u>Carrying Amount</u></i>	<i><u>Less than 1 year</u></i>	<i><u>1 year to 5 years</u></i>	<i><u>More than 5 years</u></i>
Liabilities				
Long term-loans	20,598,291	-	20,598,291	-
Short term loans	42,052,950	42,052,950	-	-
Trade and other payables	26,202,827	26,137,136	65,691	-
Accruals and other current liabilities	11,307,130	11,307,130	-	-
TOTAL	88,854,068	68,190,086	20,663,982	-

iii) Market risk

Market risk is the risk that changes in the market prices – such as foreign exchange rates and commission rates– will affect the Group's income or the value of its holdings of financial instruments.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(Limited Liability Company)
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For the year ended 31 December 2021
(All amounts in Saudi Riyals unless otherwise stated)

26. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

iv) Currency Risk

This is a risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that's not the Group's functional currency. The Group has transactions denominated in Euros, U.S. dollars, Great Britain Pounds, Swiss Francs, United Arab Emirates Dirhams and Egyptian Pounds. Management monitors the fluctuations in currency exchange rates, and the effect of the currency fluctuation has been accounted for in the consolidated financial statements.

At the end of the year, the Group had the following significant net currency exposures in foreign currencies. Presented below are the monetary assets and liabilities, net in foreign currencies:

<i>Foreign currency exposures</i>	31 December <u>2021</u>	31 December <u>2020</u>
United States Dollar	1,484,552	956,789
Oman Riyal	575	-
Euro	(932,612)	(27,266)
Great Britain Pound	(197,141)	(215,301)
UAE Dirham (AED)	(181,974)	(187,682)
Swiss Franc	(39,631)	(18,869)
Jordanian Dinar (JOD)	(2,153)	-

Given the fact that the Saudi Riyal is pegged to the US Dollar and the historic performance of the US Dollar against the other currencies listed above, coupled with the values in each respective foreign currency, the Group does not have significant exposure to fluctuations in foreign currencies.

27. COMMITMENTS AND CONTINGENCIES

Contingencies

	31 December <u>2021</u>	31 December <u>2020</u>
Letters of credit	48,089,072	22,416,670
Letters of guarantees	10,979,286	10,754,690
	<u>59,068,358</u>	<u>33,171,360</u>

28. PRIOR YEAR RECLASSIFICATIONS

Certain other prior year amounts have been reclassified to conform to the current year presentation. The effect of all the reclassifications is not material to the financial statements

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(Limited Liability Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021
(All amounts in Saudi Riyals unless otherwise stated)

29. EVENTS AFTER THE REPORTING DATE

Subsequent to the year ended 31 December 2021, the authorized and paid-up share capital has been increased to SAR 200 million divided into 20 million shares of SAR 10 each (31 December 2020: SAR 60 million divided into 80,000 shares of SAR 750 each).

Also subsequent to the year ended 31 December 2021, the Company has applied to the Ministry of Commerce to convert the legal status of the Company from a limited liability company to closed joint stock company, pursuant to shareholders' decision. The legal formalities for the conversion is under process.

Other than those mentioned above, there have been no significant subsequent events since the balance sheet date that would have a material impact on these consolidated financial statements.

30. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the shareholder for issuance on _____ 1443H corresponding to _____ 2022.

**19-3 Audited consolidated financial statements for the fiscal year ending on
December 31, 2022G**

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Consolidated Financial Statements
31 December 2022
together with the
Independent Auditor's Report



KPMG Professional Services

Riyadh Front, Airport Road
P. O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia
Commercial Registration No 1010425494

Headquarters in Riyadh

كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
سجل تجاري رقم ١٠١٠٤٢٥٤٩٤
المركز الرئيسي في الرياض

Independent Auditor's Report

To the Shareholders of Middle East Pharmaceuticals Industries Company

Opinion

We have audited the consolidated financial statements of Middle East Pharmaceuticals Industries Company ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

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

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

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



Independent Auditor's Report

To the Shareholders of Middle East Pharmaceuticals Industries Company (continued)

Key audit matters	
Revenue recognition	
Refer to Note 4.4 of the accounting policy related to revenue recognition and note 22 related to disclosure in the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>Revenue recognised during the year ended 31 December 2022, amounting to SR 303 million (2021: SR 287 million).</p> <p>The revenue recognition is considered as a key audit matter since the revenue is a key measure of the Company's performance and there is risk that revenue may be overstated resulting from pressure management may feel to achieve performance targets.</p>	<p>Our audit procedures performed with relation to revenue included, among others, the following:</p> <ul style="list-style-type: none">• Assessing the appropriateness of the revenue recognition policy that is applied to different products and combination of products to assess whether it is in accordance with the applicable accounting framework;• Assessing the design and implementation and testing the operating effectiveness of controls relating to processes over revenue recognition, including anti-fraud control procedures;• Performing various analytical reviews of the revenue recognised during the year;• Testing the supporting documents for a samples of revenue transactions recognised during the year;• Assessing the appropriateness of the amount estimated and recorded for the value of rights to return; and• Considering the adequacy of the Group's disclosures in accordance with applicable accounting standards.



Independent Auditor's Report

To the Shareholders of Middle East Pharmaceuticals Industries Company (continued)

Key audit matters (continued)
Expected credit losses (ECL)

Refer to Note 4.10 of the accounting policy related to expected credit losses, and 7 related to disclosure.

The gross balance of trade receivables amounting to SR 160 million as at 31 December 2022 (31 December 2021: SR 172 million) against which the Group has established expected credit loss (ECL) allowance of SR 8 million as at 31 December 2022 (31 December 2021: SR 7.9 million) in accordance with the requirements of IFRS 9, "Financial Instruments."

Management has applied the simplified ECL approach to determine the allowance.

The loss allowance for financial assets are based on assumptions related default risk and expected loss rates. The group uses judgement in making these assumptions and selecting inputs to calculate allowance, based on the Group's prior experience, current market conditions as each reporting period.

We considered this as a key audit matter due to the level of judgement applied and the estimate made in the ECL calculation.

Our audit procedures included, among others:

- Assessing the appropriateness of the Group's policy for determining the allowances to assess whether it is in accordance with the applicable accounting framework;
- Evaluating the suitability of the expected credit loss model on related financial assets and its suitability to the requirements of the standard;
- Obtaining an understanding of management's procedures in establishing the allowance and evaluating the design and implementation of controls in determining the ECL provision;
- Verifying the main data sources and inputs used in the ECL model and evaluated the appropriateness of judgments and estimates that were used in the ECL calculation;
- Obtaining the aging report for the trade receivables and tested its accuracy and ensured the same report is used for the ECL calculation;
- Reviewing the assumption used including the economic factors; and
- Considering the adequacy of the Group's disclosures in accordance with applicable accounting standards.



Independent Auditor's Report

To the Shareholders of Middle East Pharmaceuticals Industries Company (continued)

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

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

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

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

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

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

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

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



Independent Auditor's Report

To the Shareholders of Middle East Pharmaceuticals Industries Company (continued)

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of Middle East Pharmaceutical Industries Company ("the Company") and its subsidiaries ("the Group").

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

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

KPMG Professional Services

Fahad Mubark Aldossari
License No: 469



Riyadh: 27 March 2023
Corresponding to: 5 Ramadan 1444

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2022
(All amounts in Saudi Riyals unless otherwise stated)

		<u>31 December</u>	31 December
	<i>Note</i>	<u>2022</u>	<u>2021</u>
ASSETS			
Non-current assets			
Property, plant and equipment	10	105,643,165	103,454,701
Intangible assets	11	41,487,454	34,291,807
Equity investments	12	3,605,451	9,815,578
Total non-current assets		<u>150,736,070</u>	<u>147,562,086</u>
Current assets			
Inventories	9	100,214,552	74,451,275
Trade receivables	7	152,372,330	164,366,014
Prepayments and other current assets	8	16,137,519	11,512,816
Cash and cash equivalents	6	23,790,842	19,035,572
Total current assets		<u>292,515,243</u>	<u>269,365,677</u>
Total assets		<u>443,251,313</u>	<u>416,927,763</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	20	200,000,000	60,000,000
Statutory reserve		25,253,411	19,308,236
Other reserve		(24,359,591)	(14,447,828)
Retained earnings		79,379,813	202,220,693
Total equity		<u>280,273,633</u>	<u>267,081,101</u>
Liabilities			
Non-current liabilities			
Loans and borrowings	14	9,506,904	15,844,840
Employee benefits	18.1	21,079,851	16,611,346
Total non-current liabilities		<u>30,586,755</u>	<u>32,456,186</u>
Current liabilities			
Short-term loans	13	69,130,087	66,436,956
Loans and borrowings – current portion	14	6,337,936	4,753,451
Trade payables	15	37,954,257	32,732,211
Accruals and other current liabilities	16	13,282,053	8,320,800
Due to related parties	19.1	100,000	356,282
Zakat payable	17.2	5,586,592	4,790,776
Total current liabilities		<u>132,390,925</u>	<u>117,390,476</u>
Total liabilities		<u>162,977,680</u>	<u>149,846,662</u>
Total equity and liabilities		<u>443,251,313</u>	<u>416,927,763</u>

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

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
For the year ended 31 December 2022
(All amounts in of Saudi Riyals unless otherwise stated)

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Revenue	22	302,662,218	287,222,069
Cost of revenue	23	(118,371,401)	(112,643,860)
Gross profit		<u>184,290,817</u>	<u>174,578,209</u>
Selling and distribution expenses	25	(70,419,883)	(62,261,218)
General and administrative expenses	26	(43,404,741)	(37,558,079)
Impairment loss on trade receivable	7	(130,000)	-
Other income/ (expenses)	24	168,366	(2,618,186)
Operating profit		<u>70,504,559</u>	<u>72,140,726</u>
Finance costs	27	(5,481,493)	(1,680,839)
Profit before zakat		<u>65,023,066</u>	<u>70,459,887</u>
Zakat expense	17	(5,571,317)	(4,176,810)
Profit for the year		<u>59,451,749</u>	<u>66,283,077</u>
Other comprehensive loss			
<i>Items that will not be reclassified to profit or loss:</i>			
Equity investment at FVOCI – net change in fair value	12.1c,12.2	(6,210,124)	(10,311,650)
Re-measurements of defined benefit liability	18.1	(3,701,639)	(4,119,191)
Other comprehensive loss for the year		<u>(9,911,763)</u>	<u>(14,430,841)</u>
Total comprehensive income for the year		<u>49,539,986</u>	<u>51,852,236</u>
Basic and diluted earnings per share	31	<u>2.97</u>	<u>3.31</u>

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

These consolidated financial statements were approved by the shareholders for issuance on 1 Ramadan 1444H corresponding to 23 March 2023, and have been signed by:

Ahmed Al Tabbaa
Chairman

Maher Ghannam
President & CEO

Khaled Abu Al Rub
CFO

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

(All amounts in of Saudi Riyals unless otherwise stated)

<i>Note</i>	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Other reserve</u>	<u>Total equity</u>
Balance at 1 January 2021	60,000,000	19,308,236	173,137,616	(16,987)	252,428,865
Profit for the year	-	-	66,283,077	-	66,283,077
Other comprehensive loss	-	-	-	(14,430,841)	(14,430,841)
Total comprehensive income for the year	-	-	66,283,077	(14,430,841)	51,852,236
Dividends	-	-	(37,200,000)	-	(37,200,000)
Balance at 31 December 2021	60,000,000	19,308,236	202,220,693	(14,447,828)	267,081,101
Balance at 1 January 2022	60,000,000	19,308,236	202,220,693	(14,447,828)	267,081,101
Increase in share capital	140,000,000	-	(140,000,000)	-	-
Profit for the year	-	-	59,451,749	-	59,451,749
Other comprehensive loss	-	-	-	(9,911,763)	(9,911,763)
Total comprehensive income for the year	-	-	59,451,749	(9,911,763)	49,539,986
Transfer to statutory reserve	-	5,945,175	(5,945,175)	-	-
Dividends	-	-	(36,347,454)	-	(36,347,454)
Balance at 31 December 2022	200,000,000	25,253,411	79,379,813	(24,359,591)	280,273,633

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

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY

(A Saudi Closed Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

(All amounts in Saudi Riyals unless otherwise stated)

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:			
Profit for the year		59,451,749	66,283,077
<i>Adjustments to reconcile net income to net cash flows from operating activities:</i>			
Depreciation	10	6,840,961	6,701,580
Amortization	11	3,779,069	2,868,242
Provision for employee benefits	18.1	2,862,721	1,910,149
Loss on disposal of equity investments	24	-	2,756,457
Loans interest costs	27	4,734,120	1,184,955
Impairment loss on trade receivable	7	130,000	-
Charge for (reversal of) provision for slow moving inventory	9	1,613,821	(127,533)
Zakat expense	17.2	5,571,317	4,176,810
Loss on disposal of intangible assets		56,250	78,359
Gain on disposal of property, plant and equipment		(77,161)	(43,992)
Changes in operating assets and liabilities:			
Trade receivables		11,863,684	(54,501,636)
Prepayments and other current assets		(4,624,703)	5,385,916
Inventories		(27,377,098)	8,187,986
Trade payables		5,222,046	6,540,843
Due to shareholders		-	356,282
Due to a related party		-	(18,825)
Accruals and other current liabilities		5,061,256	(2,986,330)
Cash generated from operating activities		75,108,032	48,752,340
Zakat paid	17.2	(4,775,501)	(4,573,596)
Employee benefits paid	18.1	(2,095,855)	(2,265,737)
Net cash generated from operating activities		68,236,676	41,913,007
Cash flows from investing activities:			
Acquisition of property, plant and equipment	10	(9,358,451)	(15,432,777)
Purchase of intangible assets	11	(11,030,966)	(9,245,289)
Acquisition of equity investments	12.2	-	(166,491)
Proceeds from disposal of property, plant and equipment		406,187	44,205
Net cash used in investing activities		(19,983,230)	(24,800,352)
Cash flows from financing activities:			
Proceeds from loans during the year	13	121,941,974	83,516,906
Repayments of short-term loans during the year	13	(119,248,843)	(59,132,900)
Repayments of long-term loan during the year	14	(4,753,451)	-
Amount due to shareholders for CDC transfer	19.2	(356,282)	-
Dividends paid	21	(36,347,454)	(37,200,000)
Loans interest costs paid	27	(4,734,120)	(1,184,955)
Net cash used in financing activities		(43,498,176)	(14,000,949)
Net changes in cash and cash equivalents		4,755,270	3,111,706
Cash and cash equivalents at the beginning of year		19,035,572	15,923,866
Cash and cash equivalents at end of the year	6	23,790,842	19,035,572
Significant non-cash transactions:			
- Equity investment at FVOCI- net change in fair value	12.1c	6,210,124	10,311,650
- Disposal of equity investment	12.1a	-	21,485,620
- Acquisition of equity investment	12.1b	-	18,729,163

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

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2022
(All amounts in Saudi Riyals unless otherwise stated)

1. REPORTING ENTITY

Middle East Pharmaceutical Industries Company (“the Company”) was a Limited Liability Company incorporated in Riyadh, Kingdom of Saudi Arabia under Commercial Registration No. 1010150538 on 2 Rabi II 1419H (corresponding to 27 July 1998).

The Company has applied to the Ministry of Commerce to convert the legal status of the Company from a limited liability company to a closed joint stock company, pursuant to shareholders’ decision. On 21 Sha’ban 1443H (corresponding to 24 March 2022) the Ministry of Commerce has approved the conversion from a limited liability company to a Saudi closed joint stock company.

The Company’s registered office is located at the following address:

8146 King Muhammad V, Sulaimaniyah,
P.O. Box 4180
Riyadh 11491
Kingdom of Saudi Arabia

The company has thirteen (13) branches incorporated in the Kingdom of Saudi Arabia. The consolidated financial statements include the results of the thirteen (13) branches listed below:

<u>Branch name</u>	<u>Commercial registration number</u>
Middle Pharmaceutical Industries Company Branch	1010274622
Middle Pharmaceutical Industries Company Branch	1010560224
Middle East Distribution Company Ltd.	1010394325
Middle East Distribution Company Ltd.	1010175025
Middle East Warehouse Branch – Riyadh	1010416419
Middle East Distribution Branch – Jeddah	4030278683
Middle East Distribution Branch – Jeddah	4030161826
Middle East Distribution Branch – Dammam	2050061104
Middle East Distribution Branch – Dammam	2050168074
Middle East Warehouse Branch – Riyadh	1010653238
Middle Pharmaceutical Industries Company-Riyadh	1010755320
Middle Pharmaceutical Industries Company-Riyadh	1010728546
Comprehensive Distribution Company-Riyadh (note 19.2)	1010252567

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1. REPORTING ENTITY (CONTINUED)

The Company and its subsidiaries, mentioned below, (collectively referred to as “the Group”) is engaged in manufacturing medicines, medicated and non-medicated creams and gels.

Following subsidiaries are included in the consolidated financial statements as of 31 December 2022 and 31 December 2021:

<u>Name</u>	<u>Registered office</u>	<u>Cost of investment (In GBP*)</u>	<u>Number of shares</u>	<u>Percentage of ownership</u>	
				<u>Direct</u>	<u>Indirect</u>
Avalon Pharma UK Holdings Limited	UK	1	1	100	-
Avalon Cosmetics Limited	UK	1	1	-	100
Avalon Pharma Limited	UK	1	1	-	100
Avalon Nutrition Limited	UK	1	1	-	100

*GBP – Great Britain Pound

2. BASIS OF ACCOUNTING

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Chartered and Professional Accountants (“SOCPA”) (hereinafter refer to as “IFRS as endorsed in KSA”).

2.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention and going concern assumption, except for the employees’ defined benefits obligations which is measured using the projected unit credit method and equity investments at Fair Value through Other Comprehensive Income (FVOCI), which are measured at fair value.

2.3 Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyal (SAR) which is the functional currency of the Company. All amounts rounded to the nearest Saudi Riyal.

2.4 Basis of consolidation

a) Subsidiaries

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

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2. BASIS OF ACCOUNTING (CONTINUED)

2.4 Basis of consolidation (continued)

a) Subsidiaries (continued)

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

A list of subsidiaries is provided in note 1 along with the percentages of ownership.

b) Change in ownership interest

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interests;
- derecognizes the cumulative translation differences recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in the consolidated statement of profit or loss; and
- reclassifies the shareholders' share of components previously recognised in OCI to consolidated statement of profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

When the Group ceases to consolidate for an investment in subsidiary because of a loss of control, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in the consolidated statement of profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in OCI in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in OCI are reclassified to the consolidated statement of profit or loss.

3. USE OF JUDGMENTS AND ESTIMATES

In preparing these consolidated financial statements, we make estimates and judgments that affect the amounts recorded. Actual results could differ from our estimates. Our estimates and judgments are based on historical experience and other factors we consider reasonable, including expectations of future events. Information about estimating uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2022 is included in the following notes:

- Notes 4.5, 4.6 and 4.10: Impairment test - Trade receivables, property, plant and equipment and intangible assets.
- Notes 4.5 and 4.6: Estimated useful lives and residual values of property, plant and equipment and intangible assets.

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3. USE OF JUDGMENTS AND ESTIMATES (CONTINUED)

- Note 18: Measurement of employee benefits obligations: key actuarial assumptions.
- Note 4.10: Expected credit loss (ECL). This requires considerable judgment as to how changes in economic factors affect ECLs.

3.1 Zakat

In calculating the zakat expense for the current year, the Group has adjusted its profit and applied certain deduction to its zakat base used to calculate the zakat expense. Where Zakat, Tax and Customs Authority (“ZATCA”) assessments payable differ from the amounts recognised, such adjustments reflect changes in the estimated amounts to be paid to (recovered from) ZATCA. Unless there is an indication that the adjustment is the result of an error, such changes are recognised in profit or loss as a change in estimate.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Group in the preparation of these consolidated financial statements are set out below.

4.1 Classification of assets and liabilities to current and non-current

The Group 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 realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current

A liability is current when:

- It is expected to be settled in the 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
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

4.2 Fair Value Measurement

The Group measures its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or the most advantageous market for the asset or liability.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2 Fair Value Measurement

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

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

4.3 Foreign currencies

Transactions and balances

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the consolidated statement of profit or loss and other comprehensive income, respectively.

4.4 Revenue recognition

The Group receives revenue from the sales of goods to customers against orders received. The majority of contracts that the Company enters into relating to sales orders containing single performance obligation (PO) for the delivery of pharmaceutical and consumer healthcare products. The average duration of a sales order is less than 12 months.

Revenue is recognised when control of the goods is passed to the customer. The point at which control passes is determined by each customer arrangement, but generally occurs on delivery to the customer. Product revenue represents net invoice value including fixed and variable consideration. Variable consideration arises on the sale of goods as a result of discounts and allowances given and accruals for estimated future returns and rebates. Revenue is not recognised in full until it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted regularly in the light of contractual and legal obligations, historical trends, experience, and projected market conditions. Once the uncertainty associated with the returns and rebates is resolved, revenue is adjusted accordingly.

A contract liability is recognised for expected returns, rebates and volume discounts in relation to sales made until the end of the reporting period.

Value-added tax and other sales taxes are excluded from revenue.

The Group has applied IFRS 15. Information about the Group's accounting policies relating to contracts with customers is summarized below.

The Group recognizes revenue from contracts with customers based on a five-step model as set out in IFRS 15 and is given below:

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4 Revenue recognition (continued)

Step 1 – Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met;

Step 2 – Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer;

Step 3 – Determine the transaction price: The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties;

Step 4 – Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5 – Recognize revenue when (or as) the entity satisfies a performance obligation.

The Group satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

- The Group's performance does not create an asset with an alternate use to the Company and the Company has an enforceable right to payment for performance completed to date;
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

For performance obligations where none of the above conditions are met, revenue is recognised at the point in time at which the performance obligation is satisfied.

Revenue from sales is recognised upon delivery or shipment of products to customers, and is recorded net of returns, trade discounts and volume rebates. Other income is recorded when earned.

4.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost, net of accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Subsequent expenditure incurred is capitalized only if it is probable that future economic benefits associated with the expenditure will flow to the entity. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss account as incurred.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.5 Property, plant and equipment (continued)

Depreciation is calculated from the date the item of property and equipment is available for its intended use. It is calculated on a straight-line basis over the useful life of the asset as follows:

<u>Asset category</u>	<u>Estimated useful life</u>
Building and leasehold improvements	20
Machineries	8
Furniture and office equipment	4
Motor vehicles	4
Computers	4
Tools	8

The assets' residual values, useful lives and methods of depreciation are reviewed on an annual basis, and adjusted prospectively if appropriate, at each statement of financial position date.

Land and assets under construction, which are not ready for its intended use, are not depreciated.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognised.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 4.7).

4.6 Intangible assets

Intangible assets represent software implementation cost, the costs of developing formulas and products and other deferred charges. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. Costs that are directly associated with identifiable software products and have probable economic benefit beyond one year are recognised as intangible assets. Costs associated with maintaining computer software products are recognised as an expense when incurred.

Intangible assets that are acquired by the Group and have finite lives are measured at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized using the straight-line method over the estimated years of benefit. The estimated years of amortization of the principal classes of other intangible assets is as follows:

<u>Asset category</u>	<u>Estimated useful life</u>
Software and licenses	4 years to 10 years
Registered developed products	5 years

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization years and the amortization method for an intangible asset with a finite useful life are reviewed on an annual basis. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortization year or method, as appropriate, and are treated as changes in accounting estimates.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Intangible assets (continued)

The amortization expense on intangible assets with finite lives is recognised in the consolidated statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible asset. Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually either individually or at the aggregated cash generating unit level.

Gains or losses arising from derecognizing an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognised.

4.7 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are combined at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or Group of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting year.

4.8 Inventories

Inventories, including goods available for sale and goods in transit are stated at the lower of cost and net realizable value.

Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to complete a sale.

4.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand and bank balances, with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Financial instruments

i- Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii- Classification and measurement of financial assets and financial liabilities

On initial recognition, a financial asset is classified as measured at: amortized cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

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

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

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

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

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

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Financial instruments (continued)

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at Fair Value Through Profit and Loss (FVTPL)	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at Fair Value through Other Comprehensive Income (FVOCI)	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at Fair Value through Other Comprehensive Income (FVOCI)	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

The financial assets at amortized cost consist of trade receivables and cash and cash equivalents.

Financial Liabilities – Classification, subsequent measurement and gain and losses

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gain and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Financial instruments (continued)

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

Offsetting

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Impairment of non-derivative financial assets

The Group recognizes loss allowances for ECLs on financial assets measured at amortized cost and contract assets. The Group measures loss allowances at an amount equal to lifetime ECLs. The allowance for expected credit losses on trade receivables is estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Trade accounts receivable are normally assessed collectively unless there is a need to assess a particular debtor on an individual basis.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 365 days past due from government and 180 days past due from commercial.

The Group considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the financial asset is past due as per terms of agreement with customers.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Financial instruments (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the debtor;
- a breach of contract such as a default or being more than 180 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of impairment

Allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, including contract assets and finance lease receivables, are presented separately in the statement of profit or loss. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

4.11 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating leave 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 the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the statement of financial position.

(ii) Post-employment obligation

The Company operates a single post-employment benefit scheme of defined benefit plans driven by the labor laws within the Kingdom of Saudi Arabia.

The post-employment benefits plans are not funded. Valuation of the obligations under those plans are carried out by an independent actuary based on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits are recognised immediately in the consolidated statement of profit or loss and other comprehensive income while unwinding of the liability at discount rates used are recorded as finance costs. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in other comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the year in which they occur, directly in other comprehensive.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12 Zakat

Zakat is provided in accordance with the Regulations of the Zakat, Tax and Customs Authority (ZATCA) in the Kingdom of Saudi Arabia on an accrual basis. The zakat expense is charged to the consolidated statement of profit or loss and other comprehensive income. Differences, if any, resulting from the final assessments are adjusted in the year of their finalization.

4.13 Dividends

Provision is made for the amount of any dividends declared being appropriately authorized and no longer at the discretion of the Company, on or before the end of the reporting year but not distributed at the end of the reporting year.

4.14 Statutory reserve

In accordance with the Regulations for Companies in Kingdom of Saudi Arabia, the Company is required to recognize a reserve comprising of 10% of its net income for the year. The Company will cease the contribution when such reserve reaches 30% of its Share Capital. The reserve is not available for distribution.

4.15 Cost of revenue

Cost of revenue includes direct costs of sales, including costs of materials and overheads directly attributable to revenue.

4.16 Selling and distribution expenses

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

4.17 General and administrative expenses

These are operational expenses which are not directly related to the sale of goods. These also include allocations of general overheads which are not specifically attributed to cost of revenue. Allocation of overheads between cost of revenue, selling and distribution and general and administrative expenses, where required, is made on a consistent basis.

4.18 Value Added Tax (“VAT”)

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

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

The net amount of VAT recoverable from the ZATCA is included as part of prepayments and other current assets in the consolidated statement of financial position.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.19 Earnings per share (EPS)

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

4.20 Borrowing

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in Consolidated Statement of Profit or Loss and Other Comprehensive Income over the period of the borrowings using the effective interest method. Borrowings are removed from the Consolidated Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The borrowings are classified as a current liability when the remaining maturity is less than 12 months.

4.21 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time, that is more than one year, to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. No borrowing costs are capitalised during idle periods. All other borrowing costs are recognized in the consolidated statement of profit or loss in the period in which they are incurred.

4.22 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss and other comprehensive income net of any reimbursement.

4.23 Finance income and finance costs

The Group's finance income and finance costs include the following:

- Interest income
- Interest expenses

Interest income and expense is recognised using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset or
- the amortized cost of the financial liability

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.24 Finance income and finance costs (continued)

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

4.25 Leases

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

To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

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

As a lessee

Right of use assets

The Group recognizes a right-of-use asset at the commencement date of the lease (i.e., the date the underlying asset is available for use). The right-of-use asset is initially measured at cost. Subsequently, it is measured at cost less accumulated depreciation and impairment losses, if any, and adjusted for any re-measurement of lease liabilities.

The cost of right-of-use assets includes the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of costs to dismantle, less any lease incentive received. The estimated useful life of right-of-use assets is determined on the same basis as those of property and equipment. The recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Lease liabilities

At the commencement date of the lease, the Group recognizes 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 and amounts expected to be paid under residual value guarantees, if any. The lease payments also include payments of penalties for terminating the lease, if any, if the lease term reflects the Group exercising the option to terminate.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.23 Leases (continued)

Lease liabilities (continued)

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if 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).

Short-term leases and leases of low-value assets

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less, and leases of low-value assets.

4.24 Segmental Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. All operating segments' revenues are reviewed regularly by the Group's Board of Director's (Chief Operating Decision Makers) which in the Group's case is to make decisions about resources to be allocated to the segment and to assess its performance. The Group's operating segments are analysed and aggregated based on the nature of products and uniformity in the production processes.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following are number of new standards are effective and earlier application is permitted however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

New currently effective requirements

Effective date	New standard or amendments
1 January 2022	Onerous Contracts – Cost of Fulfilling a Contract: Amendments to IAS 37
1 January 2022	Annual Improvements to IFRS Standards 2018–2020.
1 January 2022	Property, Plant and Equipment – Proceeds before Intended Use: Amendments to IAS 16
1 January 2022	Reference to the Conceptual Framework – Amendments to IFRS 3

Forthcoming requirements

Effective date	New standard or amendments
1 January 2023	Classification of Liabilities as Current or Non-current – Amendments to IAS 1
1 January 2023	IFRS 17 Insurance Contracts, including amendments Initial Application of IFRS 17 and IFRS 9 – Comparative Information
1 January 2023	Disclosure Initiative: Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2
1 January 2023	Definition of Accounting Estimates – Amendments to IAS 8

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5. STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

1 January 2023	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12
To be determined	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

The new and amended standards mentioned above are not expected to have a significant impact on the Group’s consolidated financial statements.

6. CASH AND CASH EQUIVALENTS

	31 December 2022	31 December 2021
Cash on hand	168,565	103,058
Cash at banks – current accounts	<u>23,622,277</u>	<u>18,932,514</u>
Total	<u>23,790,842</u>	<u>19,035,572</u>

The management has conducted a review as required under IFRS 9 and based on such assessment; management believes that there is no need for any significant impairment loss against the carrying value of cash equivalents.

7. TRADE RECEIVABLES

	31 December 2022	31 December 2021
Trade receivables	160,405,706	172,269,390
Less: Impairment loss on trade receivables	<u>(8,033,376)</u>	<u>(7,903,376)</u>
	<u>152,372,330</u>	<u>164,366,014</u>

Movement in the allowance for impairment as per ECL model in respect to trade receivables is as follows:

	31 December 2022	31 December 2021
Opening balance	7,903,376	7,903,376
Allowance for the year	<u>130,000</u>	<u>-</u>
Closing balance	<u>8,033,376</u>	<u>7,903,376</u>

For financial assets measured at amortized cost (cash, cash equivalent and trade receivable), the fair value approximates the carrying amount.

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8. PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December 2022	31 December 2021
Advances to suppliers	5,175,030	3,020,565
VAT refundable	2,166,351	1,762,630
Prepaid insurance	2,001,052	1,887,158
Due from employees	1,936,890	922,096
Margin deposit on letters of credit and guarantee	1,428,976	1,566,866
Prepaid iqama fees	998,680	1,084,120
Prepaid rent	584,084	865,207
Prepaid subscription fees	407,540	290,377
Other	1,438,916	113,797
	<u>16,137,519</u>	<u>11,512,816</u>

9. INVENTORIES

	31 December 2022	31 December 2021
Raw and packaging materials	56,753,965	41,611,947
Finished products	36,883,268	24,110,731
Consumable supplies	7,014,263	6,337,115
Spare parts inventory	1,507,428	2,760,314
Work-in-progress	295,472	257,191
	<u>102,454,396</u>	<u>75,077,298</u>
Less: Provision for slow-moving inventory	<u>(2,239,844)</u>	<u>(626,023)</u>
Inventories, net	<u>100,214,552</u>	<u>74,451,275</u>

	31 December 2022	31 December 2021
Opening balance	626,023	753,556
Add: provision for slow-moving inventory	9,520,608	4,725,805
Less: write off during the year	(7,906,787)	(4,853,338)
	<u>1,613,821</u>	<u>(127,533)</u>
Balance at the end of the year	<u>2,239,844</u>	<u>626,023</u>

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10. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and leasehold improvements	Machineries	Furniture and office equipment	Motor vehicles	Computers	Tools	Assets under construction	Total
Cost:									
At 1 January 2022	10,192,286	54,192,138	27,457,416	6,429,806	4,010,721	4,365,051	10,688,766	46,004,198	163,340,382
Additions	-	487,517	-	334,829	22,044	5,410	33,799	8,474,852	9,358,451
Disposals	-	(255,075)	(68,135)	(753,614)	(448,680)	(141,414)	(199,690)	-	(1,866,608)
Transfers (note 10.2)	-	32,106,099	1,267,373	464,536	2,354,199	714,569	456,986	(37,363,762)	-
Reclassification	-	-	-	(265,000)	-	-	265,000	-	-
At 31 December 2022	10,192,286	86,530,679	28,656,654	6,210,557	5,938,284	4,943,616	11,244,861	17,115,288	170,832,225
Accumulated depreciation:									
At 1 January 2022	-	16,722,919	23,959,400	5,254,288	3,619,808	3,226,507	7,102,759	-	59,885,681
Charge for the year	-	3,093,729	1,631,275	384,287	359,726	537,653	834,291	-	6,840,961
Disposals	-	(76,057)	(32,265)	(723,590)	(365,923)	(140,099)	(199,648)	-	(1,537,582)
Reclassification	-	-	-	(12,959)	-	-	12,959	-	-
At 31 December 2022	-	19,740,591	25,558,410	4,902,026	3,613,611	3,624,061	7,750,361	-	65,189,060
Net book value:									
At 31 December 2022	10,192,286	66,790,088	3,098,244	1,308,531	2,324,673	1,319,555	3,494,500	17,115,288	105,643,165

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10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land	Buildings and leasehold improvements	Machineries	Furniture and office equipment	Motor vehicles	Computers	Tools	Assets under construction	Total
<u>Cost:</u>									
At 1 January 2021	10,192,286	54,145,021	33,300,937	5,866,665	3,970,826	3,716,127	10,006,747	26,944,031	148,142,640
Additions	-	47,117	1,528,679	580,943	247,578	658,474	682,019	11,687,967	15,432,777
Disposals	-	-	-	(17,802)	(207,683)	(9,550)	-	-	(235,035)
Reclassification (Note 10.5)	-	-	(7,372,200)	-	-	-	-	7,372,200	-
At 31 December 2021	10,192,286	54,192,138	27,457,416	6,429,806	4,010,721	4,365,051	10,688,766	46,004,198	163,340,382
<u>Accumulated depreciation:</u>									
At 1 January 2021	-	14,167,985	21,846,461	4,833,855	3,592,828	2,768,005	6,209,790	-	53,418,924
Charges for the year	-	2,554,934	2,112,939	438,235	234,663	467,840	892,969	-	6,701,580
Disposals	-	-	-	(17,802)	(207,683)	(9,338)	-	-	(234,823)
At 31 December 2021	-	16,772,919	23,959,400	5,254,288	3,619,808	3,226,507	7,102,759	-	59,885,681
<u>Net book value:</u>									
At 31 December 2021	10,192,286	37,469,219	3,498,016	1,175,518	390,913	1,138,544	3,586,007	46,004,198	103,454,701

10.1 Depreciation has been allocated as follows:

	31 December 2022	31 December 2021
Cost of revenue (Note 23)	3,988,064	4,205,615
Selling and distribution expense (Note 25)	670,166	281,039
General and administrative expenses (Note 26)	2,182,731	2,214,926
	6,840,961	6,701,580

10.2 Assets under construction include the new warehouse for storage of raw materials and finished goods inventories. They also include expansion of two existing factories to increase the production capacity. During the current year, the new warehouse has become operational and a total of SAR 37,363,762 assets under construction were completed and transferred.

10.3 The Group's headquarter building (title deeds number 610124040243 and 810124040242) with a book value of SAR 20,499,040, is currently mortgaged to local bank as a loan security. (Note 14)

10.4 Additions for the assets under construction includes capitalized borrowing cost of SAR 351,819 (31 December 2021: SAR 854,341).

10.5 The Group has reclassified some machineries that are not ready for intended use into the assets under construction.

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11. INTANGIBLE ASSETS

	<u>Software and licenses</u>	<u>Registered developed products</u>	<u>Capital work in progress</u>	<u>Total</u>
Cost:				
1 January 2022	8,681,321	36,251,826	-	44,933,147
Additions	780,858	10,250,108	-	11,030,966
Write-offs/disposals	-	(56,250)	-	(56,250)
At 31 December 2022	9,462,179	46,445,684	-	55,907,863
Accumulated amortization:				
1 January 2022	2,939,601	7,701,739	-	10,641,340
Charge for the year	868,884	2,910,185	-	3,779,069
At 31 December 2022	3,808,485	10,611,924	-	14,420,409
Net book value:				
At 31 December 2022	5,653,693	35,833,761	-	41,487,454
Cost:				
1 January 2021	8,429,732	27,932,854	55,747	36,418,333
Additions	251,589	8,993,700	-	9,245,289
Write-offs/disposals	-	(674,728)	(55,747)	(730,475)
At 31 December 2021	8,681,321	36,251,826	-	44,933,147
Accumulated amortization:				
1 January 2021	2,129,107	6,296,107	-	8,425,214
Charge for the year	810,494	2,057,748	-	2,868,242
Write-offs/disposal	-	(652,116)	-	(652,116)
At 31 December 2021	2,939,601	7,701,739	-	10,641,340
Net book value:				
At 31 December 2021	5,741,720	28,550,087	-	34,291,807

11.1 Amortization has been allocated as follows:

	<u>2022</u>	<u>2021</u>
Cost of revenue (Note 23)	17,220	14,082
General and administrative expenses (Note 26)	3,761,849	2,854,160
	3,779,069	2,868,242

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12. EQUITY INVESTMENTS

The Group designated the investments shown below as equity securities at FVOCI because these equity securities represent investments that the Group intends to hold for the long-term for strategic purposes.

	31 December	31 December
	<u>2022</u>	<u>2021</u>
Equity investments in:		
- Columbia Care Inc.	(12.1) 2,207,390	8,417,517
- Nuha Consultancy	(12.2) 1,090,816	1,090,816
- Emulsion Cosmetics Limited	(12.2) 307,245	307,245
	<u>3,605,451</u>	<u>9,815,578</u>

12.1 Columbia Care Inc (CCI)

- a) On 28 July 2020, the Company purchased 5% shares in Columbia Care International HoldCo LLC (“CCIH”) in consideration for EUR 5,000,000 (equivalent to SAR 21,485,620), which approximates the fair value as on 31 December 2020.
- b) On 12 March 2021, a share redemption agreement (“the agreement”) was entered by the Company with following parties:
- i. Columbia Care International HoldCo LLC (“CCIH”), a Delaware limited liability company;
 - ii. Columbia Care Inc (“CCI”), a company listed on NEO Exchange, Canada; and
 - iii. Columbia Care LLC (“CC”), a Delaware limited liability company and a wholly owned subsidiary of CCI.

Under the agreement, the 5% shares of CCIH, owned by the Company, were exchanged for 783,805 shares of CCI at the 20-days VWAP price of CAD 7.95 per share, totaling to CAD 6,231,250 (equivalent to SAR 18,729,163). Accordingly, the Company had recorded a loss on disposal of CCIH shares amounting to SAR 2,756,457 (refer note 24).

- c) At 31 December 2022, the market price of CCI share was USD 0.75 per share, which resulted into a fair value loss amounting to SAR 6,210,124 (31 December 2021: SAR 10,311,650).

The management uses level one of fair value hierarchy which is observable share price as a valuation technique.

12.2 Nuha Consultancy and Emulsion Cosmetics Limited

Nuha Consultancy, incorporated in British Virgin Island and Emulsion Cosmetics Limited, incorporated in England and Wales, are engaged in retail sale of cosmetic and toilet articles in specialized stores.

During March 2020, Avalon Cosmetics Limited, an indirect fully owned subsidiary of the Company (refer Note 1), has purchased 15% shares each in Nuha Consultancy and Emulsion Cosmetics Limited, for a total consideration of SAR 1,090,816 and SAR 140,754, respectively.

On 8 April 2021 and 21 December 2021, Avalon Cosmetics Limited has contributed an additional capital amounting to SAR 73,352 and SAR 93,139, respectively in Emulsion Cosmetics Limited. Accordingly, as at 31 December 2022 and 31 December 2021, investment in Emulsion Cosmetics Limited was SAR 307,245.

These equity investments are fair valued as at 31 December 2022 and the fair value of Nuha Consultancy and Emulsion Cosmetics Limited are SAR 1,090,816 and SAR 307,245, respectively. Accordingly, the fair value loss SAR nil (31 December 2021 SAR nil).

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13. SHORT-TERM LOANS

The Company has obtained Murabahah and Musharika financing from various commercial banks at agreed commercial rates. The balance outstanding are as follow:

	31 December 2022	31 December 2021
Opening balance	66,436,956	42,052,950
Proceeds from loans during the year	121,941,974	83,516,906
Repayments during the year	(119,248,843)	(59,132,900)
Closing balance	<u>69,130,087</u>	<u>66,436,956</u>

The local bank loans are secured by personal guarantees from the Company's shareholders.

Financial charges rates on loans range between 1.75% to 2.25%+SAIBOR

14. LOANS AND BORROWINGS

The long-term loan was taken from a local bank and is secured by personal guarantees of the Group's shareholders and the Group's headquarter building with a book value of SAR 20,499,040. Long-term loan bears commission at agreed commercial rates which is SAIBOR plus 1.75% p.a. payable in thirteen equal quarterly instalments beginning September 2022.

Movement of the long-term loans is as follows:

	31 December 2022	31 December 2021
Opening balance	20,598,291	20,598,291
Proceeds from loans during the year	-	-
Repayments during the year	(4,753,451)	-
Closing balance	<u>15,844,840</u>	<u>20,598,291</u>

Based on the loan repayment schedules, the outstanding balances as at year end are as follow:

	31 December 2022	31 December 2021
Current portion	6,337,936	4,753,451
Non-current portion	9,506,904	15,844,840
	<u>15,844,840</u>	<u>20,598,291</u>

15. TRADE PAYABLES

	31 December 2022	31 December 2021
Local suppliers	20,508,413	16,859,945
Foreign suppliers	17,445,844	15,872,266
	<u>37,954,257</u>	<u>32,732,211</u>

For financial liabilities measured at amortized cost (Trade payables, short-term loans and loans and borrowings), the fair value approximates the carrying amount.

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16. ACCRUALS AND OTHER CURRENT LIABILITIES

	31 December 2022	31 December 2021
Salaries and related benefits	6,561,792	7,156,373
Marketing and advertising	1,205,950	140,000
Board and committee members remuneration	1,150,000	-
Advances from customers	1,166,787	352,395
Refund liability for rebates	798,442	-
Professional fees	729,175	150,440
Employees' accrued expenses	352,699	312,261
Withholding tax payable	130,112	97,014
Others	1,187,096	112,317
	<u>13,282,053</u>	<u>8,320,800</u>

17. ZAKAT

17.1 Zakat base

As at the statement of financial position date, Zakat base was calculated based on the financial statements of the Company, as follows:

	31 December 2022	31 December 2022
Shareholders' equity at beginning of year	245,181,472	215,245,853
Adjusted net income	66,293,516	77,158,439
Additions	58,028,093	35,613,494
Deductions	<u>(148,638,048)</u>	<u>(140,506,822)</u>
Total (Zakat base)	<u>220,865,033</u>	<u>187,510,964</u>
Zakat at 2.5% (higher of adjusted net income or Zakat base)	5,521,626	4,687,774
Excess from previous year provision	-	(610,468)
Additional provision during the year	<u>49,691</u>	<u>99,504</u>
Zakat expense during the year	<u>5,571,317</u>	<u>4,176,810</u>

17.2 Zakat provision

Movement in Zakat provision for the year is as follows:

	31 December 2022	31 December 2021
Balance at beginning of the year	4,790,776	5,182,820
CDC, balance at the beginning of the year	-	3,498
Adjusted beginning balance	<u>4,790,776</u>	<u>5,186,318</u>
Provision for zakat for the year	<u>5,571,317</u>	<u>4,176,810</u>
	<u>10,362,093</u>	<u>9,363,128</u>
CDC, shortage from previous year	-	1,244
Payments made during the year	<u>(4,775,501)</u>	<u>(4,573,596)</u>
Balance at end of the year	<u>5,586,592</u>	<u>4,790,776</u>

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17. ZAKAT (CONTINUED)

17.3 Status of Zakat assessment

Zakat, Tax and Customs Authority (“ZATCA”) issued the last final assessment for the year ended 31 December 2017, and the Company has paid all the amounts based on the final assessment.

Zakat declaration for and up to the years ended 31 December 2021 have been submitted to ZATCA. However, up to the date of this consolidated financial statement, there is no assessment has been finalized after the assessment finalized by ZATCA for the year ended 31 December 2017.

18. EMPLOYEE BENEFITS

The Group operates a defined benefit plan in line with the labor law requirements applicable in the Kingdom of Saudi Arabia. The payments under this plan are based on the employees’ final salaries, allowances and their cumulative years of service at the date of their termination of employment.

All Group’s employees’ termination benefit plans are unfunded.

18.1 Amounts in the statement of financial position

The amounts recognized in the consolidated statement of financial position and the movements in the defined benefit obligation are as follows:

	31 December 2022	31 December 2021
Opening balance	16,611,346	12,847,743
<i>Recognised in the consolidated statement of profit or loss</i>		
Current service cost	2,115,348	1,414,265
Interest cost	747,373	495,884
	2,862,721	1,910,149
<i>Recognised in the consolidated statement of comprehensive income</i>		
Actuarial loss	3,701,639	4,119,191
Settlements during the year	(2,095,855)	(2,265,737)
Closing balance	21,079,851	16,611,346

18.2 Significant actuarial assumptions

The significant actuarial assumptions used were as follows:

	31 December 2022	31 December 2021
<i>Economic assumptions:</i>		
Discount Rate	4.50%	3.67%
Salary increases rate (long-service)	5%	7.36%
Rates of employee turnover	18.45%	21.79%
<i>Demographics assumptions</i>		
Number of employees	533	504
Average age of employees (years)	36.44	36.65
Average years of past service	5.64	5.51
Retirement age	60	60

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EMPLOYEE BENEFITS (CONTINUED)

18.3 Sensitivity analysis

The sensitivity of the defined benefit obligations to changes in the weighted principal assumptions made in the calculation is:

	Change in assumption	31 December 2022 (net liability)	31 December 2021 (net liability)
Long term salary increases	0.5% Decrease	23,521,869	18,917,276
	0.5% Increase	24,631,226	19,662,486
Discount rate	0.5% Decrease	24,660,280	19,678,127
	0.5% Increase	23,500,320	18,906,235

19. RELATED PARTIES TRANSACTIONS

Related parties include subsidiary companies, major shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties.

Transactions with related parties carried out during the year, in the normal course of business, are approved by Group management. The transactions and balances with related parties are as follows:

19.1 Due to related party

Related party	Relationship	Nature of transactions	Amount of transaction		Balance	
			<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Faisal Shahir Tabbaa Attorney and Legal Consultant	Affiliate*	Paid consulting services	120,000	120,000	100,000	-
			<u>120,000</u>	<u>120,000</u>	<u>100,000</u>	<u>-</u>

* Faisal Shahir Tabbaa Attorney and Legal Consultant is Law firm which is owned by Mr. Faisal Shahir Tabbaa, shareholder.

19.2 CDC as a branch of Middle East Pharmaceutical Company (MEPI)

On 7 Rabi ul Awal 1443H (corresponding to 13 October 2021), the shareholders of the CDC and the Company decided to transfer the operation of CDC to the Company as a branch through transfer of net assets. Hence, CDC ceased to be a related party. On the date of the conversion, the net assets of CDC were transferred to the Company, which are as follows:

Cash and cash equivalents	485,903
Prepayments and other current assets	2,383
Property and equipment	300,000
Accumulated depreciation	(300,000)
Accruals and other current liabilities	(120,829)
Employee benefits	(11,175)
Net assets	<u>356,282</u>

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19. RELATED PARTIES TRANSACTIONS (CONTINUED)

19.3 Compensation and benefits to key managements personnel:

	31 December 2022	31 December 2021
Short-term employee benefits	9,822,257	8,767,275
Employees' defined benefits obligations	<u>1,062,605</u>	<u>1,315,966</u>
Total compensation and benefits to key managements personnel	<u>10,884,862</u>	<u>10,083,241</u>

The compensation and benefits to key management personnel, included in salaries and other related benefits, are allocated as follows:

	31 December 2022	31 December 2021
General and administrative expenses	7,583,840	7,411,012
Cost of revenue	1,950,543	2,011,356
Selling and distribution expense	<u>1,350,479</u>	<u>660,873</u>
	<u>10,884,862</u>	<u>10,083,241</u>

20. SHARE CAPITAL

On 20 Rajab 1443H (corresponding to 21 February 2022), the authorized and paid-up share capital has been increased to SAR 200 million divided into 20 million shares of SAR 10 each (31 December 2021: SAR 60 million divided into 80,000 shares of SAR 750 each);

The increase in share capital amounting to SAR 140,000,000 has been done out of retained earnings. All legal proceedings have been completed in this respect.

	<u>No. of shares</u>	<u>Par value</u>	<u>Total</u>
31 December 2022	<u>20,000,000</u>	<u>10.00</u>	<u>200,000,000</u>
31 December 2021	<u>80,000</u>	<u>750.00</u>	<u>60,000,000</u>

A list of the Company's shareholders and their shareholding are as follows:

<u>Name of shareholders</u>	<u>31 December 2022</u>		
	<u>No. of shares</u>	<u>Value (SAR)</u>	<u>Percentage (%)</u>
Mr. Ahmad Shaher Tabbaa	12,050,000	120,500,000	60.25
Mr. Ali Shahir Tabbaa	1,320,000	13,200,000	6.60
Mr. Faisal Shahir Tabbaa	1,280,000	12,800,000	6.40
Mr. Faisal Al Jaman	750,000	7,500,000	3.75
Mr. Talal Yousef Mahmoud Zahid	4,200,000	42,000,000	21.00
Mr. Yousef Talal Zahid	<u>400,000</u>	<u>4,000,000</u>	<u>2.00</u>
	<u>20,000,000</u>	<u>200,000,000</u>	<u>100.00</u>

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20. SHARE CAPITAL (CONTINUED)

<u>Name of shareholder</u>	31 December 2021		
	<u>No. of shares</u>	<u>Value (SAR)</u>	<u>Percentage (%)</u>
Mr. Ahmad Shaher Tabbaa	48,200	36,150,000	60.25
Mr. Ali Shahir Tabbaa	5,280	3,960,000	6.60
Mr. Faisal Shahir Tabbaa	5,120	3,840,000	6.40
Mr. Faisal Al Jaman	3,000	2,250,000	3.75
Mr. Talal Yousef Mahmoud Zahid	16,800	12,600,000	21.00
Mr. Yousef Talal Zahid	1,600	1,200,000	2.00
	80,000	60,000,000	100.00

21. DIVIDENDS

During the current year and prior to conversion of the Company to a closed joint stock company, the shareholders have approved interim dividends amounting to SAR 16,040,454 (31 December 2021: SAR 37,200,000).

On July 14, 2022, the Board of Directors have approved interim dividends amounting to SAR 20,307,000. The dividends will be endorsed by the general assembly in their next annual general meeting.

	<u>2022</u>	<u>2021</u>
Shareholders' dividends	36,347,454	37,200,000
	36,347,454	37,200,000

22. REVENUE

The breakdown of revenue by **customer type** is as follows:

	<u>31 December</u> <u>2022</u>	31 December <u>2021</u>
<i>Revenue from:</i>		
Retail customers	207,967,773	194,141,569
Public and related customers*	68,583,501	65,638,989
Export customers	26,110,944	27,441,511
	302,662,218	287,222,069

* *Public and related customers revenue include revenue under Wasfaty Program.*

The table below represents the segregation of revenue by **geographical market and product line**:

31 December 2022

	Medicine	Cosmetics	Total
Local	163,098,605	113,452,669	276,551,274
Export	17,412,486	8,698,458	26,110,944
	180,511,091	122,151,127	302,662,218

31 December 2021

	Medicine	Cosmetics	Total
Local	139,216,730	120,563,828	259,780,558
Export	18,487,806	8,953,705	27,441,511
	157,704,536	129,517,533	287,222,069

All the revenue is recognised at a point in time at which the performance obligation is satisfied.

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23. COST OF REVENUE

	31 December 2022	31 December 2021
Beginning inventory finished goods (Note 9)	24,110,731	24,071,800
Add: Direct purchases	3,282,777	5,316,553
Add: Cost of goods manufactured:		
Raw materials cost	39,103,491	33,696,989
Packing materials cost	44,730,320	34,702,288
Indirect labor	17,120,376	16,369,628
Direct labor	7,255,893	5,609,681
Depreciation (Note 10)	3,988,064	4,205,615
Amortization (Note 11)	17,220	14,082
Other Overheads	15,645,797	12,767,955
Total cost of goods manufactured	<u>127,861,161</u>	<u>107,366,238</u>
Less: Ending inventory finished goods (Note 9)	<u>(36,883,268)</u>	<u>(24,110,731)</u>
	<u>118,371,401</u>	<u>112,643,860</u>

24. OTHER INCOME/ (EXPENSES)

		31 December 2022	31 December 2021
Loss on disposal of equity investments	<i>12.1</i>	-	(2,756,457)
Other income		<u>168,366</u>	<u>138,271</u>
		<u>168,366</u>	<u>(2,618,186)</u>

25. SELLING AND DISTRIBUTION EXPENSES

	31 December 2022	31 December 2021
Salaries and other related benefits	25,675,782	23,579,916
Marketing and advertising expenses	19,294,395	17,469,603
Housing and accommodation expenses	6,735,273	6,153,969
Freight	5,373,541	3,640,278
Employees' transportation allowance	3,146,262	2,915,731
Travelling expenses	1,776,892	1,590,093
Employees' GOSI expenses	1,492,474	1,318,671
Employees' medical insurance	1,277,975	1,409,689
Legal and government fees	1,197,650	791,095
Employees' vacation expenses	970,986	726,537
Employees' visa and iqama expenses	956,834	915,887
Rent expense	861,647	918,141
Depreciation (Note 10.1)	670,166	281,039
Communication expenses	480,163	24,267
Vehicle expenses	324,708	352,378
Repairs and maintenance	185,135	173,924
	<u>70,419,883</u>	<u>62,261,218</u>

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26. GENERAL AND ADMINISTRATIVE EXPENSES

	31 December 2022	31 December 2021
Salaries and other related benefits	15,246,133	14,665,709
Amortization (Note 11.1)	3,761,849	2,854,160
Housing and accommodation expenses	3,470,361	3,072,739
Communication expenses	2,950,338	3,131,316
Professional fees	2,398,508	1,512,034
Depreciation (Note 10.1)	2,182,731	2,214,926
Legal and government fees	1,665,470	1,586,258
Fees on letter of guarantee / credit	1,384,252	680,938
Board and committee members remuneration	1,150,000	-
Employee GOSI expenses	1,117,739	844,124
Consumables expenses	1,024,550	720,068
Employees' transportation allowance	1,001,377	845,611
Employees' medical insurance	878,654	778,170
Travelling expenses	848,599	396,184
Repairs and maintenance	842,261	647,290
Bank charges	746,259	1,077,303
Outsourcing expenses	562,335	569,193
Electricity	480,709	647,974
Employees' vacation expenses	478,072	195,360
Rent expense	399,776	168,584
Employees' visa and iqama	390,435	486,208
Printing and stationeries	235,781	261,793
Others	188,552	202,137
	43,404,741	37,558,079

27. FINANCE COSTS

	31 December 2022	31 December 2021
Interest costs on loans	4,734,120	1,184,955
Net interest cost: Employees' defined benefits obligations (note 18.1)	747,373	495,884
Total	5,481,493	1,680,839

28. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT

Accounting classification and fair values

The carrying amount of financial assets and financial liabilities is a reasonable approximation of the respective financial assets and financial liabilities fair value.

Financial risk management

The Group has exposure to the following risk arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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28. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

The carrying amounts of financial assets and contract assets represent the maximum credit exposure.

An impairment loss on financial assets amounting to SAR 130,000 was recognized in the consolidated financial statements during the year 2022 as per ECL provision (31 December 2021: nil)

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry in which the customers operate.

The Group a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered to the customer. Management ensures that sales made to customers are within the respective customers credit limit.

The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of six months for its customers.

In monitoring customer credit risk, customers are combined according to their credit characteristics, including whether they are retail, public or export customers; their geographic location; and the existence of previous and current financial difficulties.

The credit risk of bank balances is limited as cash balances amounting to SAR 23,622,277 (31 December 2021: 18,932,514) are held with banks with sound credit ratings ranging from BBB+ to A+.

The Group does not have significant concentration of credit risk.

The exposure to credit risk for trade receivables by type of counterparty was as follows:

	Carrying amount	
	31 December	31 December
	<u>2022</u>	<u>2021</u>
Retail customers	77,237,877	72,376,191
Public customers	77,106,427	91,914,982
Export customers	6,061,402	7,978,217
Total gross carrying amount	160,405,706	172,269,390
Less: loss allowance	(8,033,376)	(7,903,376)
Total net carrying amount	152,372,330	164,366,014

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28. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT

i) Credit risk (continued)

The ageing of trade receivables that were past due but not impaired and trade receivables due and impaired is as follows:

	31 December 2022	31 December 2021
Due but not impaired	152,372,330	164,366,014
Due and impaired	8,033,376	7,903,376
	<u>160,405,706</u>	<u>172,269,390</u>

The Group uses an allowance matrix to measure expected credit losses (ECLs) of trade receivables from individual customers, which comprise a very large number of small balances. Loss rates are calculated using a “roll rate” method based on the probability of a receivable progressing through successive stages of delinquency to write off. These rates are multiplied by scalar factors to reflect differences in economic conditions during the period over which the historical data has been collected, current conditions and the Group’s view of economic conditions over the expected lives of the receivables. Any customers wherein there is specific indicators or factors which lead management to believe that the recovery of the amount is doubtful are provided for separately. The following table provides information about the exposure to credit risk for trade receivables:

31 December 2022			
	<i>Weighted-average loss rate</i>	<i>Gross carrying amount</i>	<i>Impairment loss allowance</i>
Current (not past due)	0.00%	103,128,418	-
1 to 30 past due	1.28%	4,029,105	(51,551)
31 to 60 past due	8.01%	2,406,123	(192,846)
61 to 90 past due	17.51%	1,402,258	(245,555)
91 to 180 past due	14.21%	3,482,332	(494,844)
181 to 365 past due	10.90%	9,497,396	(1,035,335)
More than 365 past due	16.49%	36,460,074	(6,013,245)
		<u>160,405,706</u>	<u>(8,033,376)</u>
31 December 2021			
	<i>Weighted-average loss rate</i>	<i>Gross carrying amount</i>	<i>Impairment loss allowance</i>
Current (not past due)	1.93%	101,440,153	(1,961,310)
1 to 30 past due	0.72%	6,039,557	(43,657)
31 to 60 past due	2.10%	2,988,870	(62,796)
61 to 90 past due	1.91%	2,144,604	(40,893)
91 to 180 past due	1.04%	14,202,749	(147,176)
181 to 365 past due	4.00%	11,283,981	(451,160)
More than 365 past due	15.21%	34,169,476	(5,196,384)
	-	<u>172,269,390</u>	<u>(7,903,376)</u>

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28. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Group's future commitments. Following are the contractual maturities at the end of the reporting period of financial liabilities. The amounts are grossed and undiscounted and include estimated interest payments except for the long-term loans where the borrowing cost amounting to SAR 233,008, SAR 29,413 and SAR 89,398 paid in September, October 2 and October 31, 2022, respectively, were capitalized as part of the cost of the newly built warehouse of the Group. The amounts are grossed and undiscounted and include estimated interest payments.

	31 December 2022			
	<i><u>Carrying amount</u></i>	<i><u>Less than 1 year</u></i>	<i><u>1 year to 5 years</u></i>	<i><u>More than 5 years</u></i>
Liabilities				
Long term-loans	15,844,840	7,078,747	9,965,342	-
Short term loans	69,130,087	70,936,185	-	-
Trade payables	37,954,257	37,954,257	-	-
Accruals and other current liability	12,115,266	12,115,266	-	-
Due to shareholders	100,000	100,000		
TOTAL	135,144,450	128,184,454	9,965,342	-
		31 December 2021		
	<i><u>Carrying Amount</u></i>	<i><u>Less than 1 year</u></i>	<i><u>1 year to 5 years</u></i>	<i><u>More than 5 years</u></i>
Liabilities				
Long term-loans	20,598,291	5,136,399	17,044,088	-
Short term loans	66,436,956	66,436,956	-	-
Trade payables	32,732,211	32,732,211	-	-
Accruals and other current liabilities	7,968,405	7,968,405	-	-
Due to shareholders	356,282	356,282	-	-
TOTAL	128,092,145	112,630,253	17,044,088	-

iii) Market risk

Market risk is the risk that changes in the market prices – such as foreign exchange rates and commission rates– will affect the Group's income or the value of its holdings of financial instruments.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2022
(All amounts in Saudi Riyals unless otherwise stated)

28. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

iv) Currency risk

This is a risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that's not the Group's functional currency. The Group has transactions denominated in Euros, U.S. dollars, Great Britain Pounds, Swiss Francs, United Arab Emirates Dirhams. Management monitors the fluctuations in currency exchange rates, and the effect of the currency fluctuation has been accounted for in the consolidated financial statements.

At the end of the year, the Group had the following significant net currency exposures in foreign currencies. Presented below are the monetary assets and liabilities, net in foreign currencies:

<i>Foreign currency exposures</i>	31 December <u>2022</u>	31 December 2021
United States Dollar	331,396	1,484,552
Swiss Franc	(28,008)	(39631)
Great Britain Pound	(267,980)	(197,141)
Euro	(836,237)	(932,612)
UAE Dirham (AED)	(1,056,074)	(181,974)

Given the fact that the Saudi Riyal is pegged to the US Dollar and the historic performance of the US Dollar against the other currencies listed above, coupled with the values in each respective foreign currency, the Group does not have significant exposure to fluctuations in foreign currencies.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
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For the year ended 31 December 2022
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29. SEGMENT

The Board of Directors (BOD), which has been identified as the Chief Operating Decision Maker (CODM), monitor the operating results of its reportable segments separately to make decisions about resource allocation and performance assessment. Transactions between the operating segments are on terms approved by the management.

The Group has two operating segments, Medicines and Cosmetics. The Group's CODM evaluates the segments' revenue on a regular basis in deciding how to allocate resources among the segments and in assessing segment performance. The CODM evaluates the performance of the Group's segments based on revenue. The Group uses revenue as its principal measure of segment performance as it enhances the Group's ability to compare past financial performance with current performance and analyze underlying business performance and trends.

The following table represents the segregation of revenue by type:

Revenue
Type of revenue

	31 December 2022	31 December 2021
Medicines	180,511,091	157,704,536
Cosmetics	122,151,127	129,517,533
	302,662,218	287,222,069

In the following table, revenue is disaggregated by the primary geographical market, the table also includes a reconciliation of the disaggregated revenue with the Group's two divisions, which are its reportable segments.

31 December 2022

	Medicine	Cosmetics	Total
Local	163,098,605	113,452,669	276,551,274
Export	17,412,486	8,698,458	26,110,944
	180,511,091	122,151,127	302,662,218

31 December 2021

	Medicine	Cosmetics	Total
Local	139,216,730	120,563,828	259,780,558
Export	18,487,806	8,953,705	27,441,511
	157,704,536	129,517,533	287,222,069

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2022
(All amounts in Saudi Riyals unless otherwise stated)

30. COMMITMENTS AND CONTINGENCIES

	31 December 2022	31 December 2021
Letters of credit (30.1)	36,063,782	20,195,791
Letters of guarantees (30.2)	3,002,770	3,013,867
	39,066,552	23,209,658

30.1 The letter of credits are contractual commitments by the Group's bank to pay once the export suppliers ship the goods and presents the required documentation to the exporter's bank as proof. The amount shown above is the total letter of credits issued and outstanding from the Group's facilities with banks.

30.2 The letter of guarantees are the commitments or performance bond of the Group attached to its obligations to the Government deliveries to ensure compliance with terms and conditions of its Government obligations. The amount shown above is the total letter of guarantees issued and outstanding from the Group's bank facilities.

31. EARNING PER SHARE (EPS)

Basic and diluted earnings per share are based on the net profit for the year ended 31 December 2022 and 31 December 2021 divided by weighted average number of shares.

	31 December 2022	31 December 2021
Profit for the year	59,451,749	66,283,077
Weighted average number of shares outstanding during the year	20,000,000	20,000,000
Basic and diluted earnings per share	2.97	3.31

The face value of existing shares were changed on 21 February 2022 from SAR 750 per share to SAR 10 per share and the Company increased the number of shares by 14,000,000 on 21 February 2022 out of retained earnings. Accordingly, weighted average number of shares and consequently the EPS of 31 December 2021 has been adjusted to reflect these changes as per the requirement of para 64 of IAS 33.

32. EVENTS AFTER THE REPORTING DATE

During the year ended 31 December 2022, the Company has submitted the application for listing in NOMU (the secondary market in KSA). Subsequent to the year ended 31 December 2022, the Company has withdrawn its application from NOMU and decided to file a listing application in Tadawul (the primary market in KSA).

The new Companies Law issued through Royal Decree M/132 on 1/12/1443H (corresponding to 30 June 2022) (hereinafter referred as "the Law") came into force on 26/6/1444 H (corresponding to 19 January 2023). For certain provisions of the Law, full compliance is expected not later than two years from 26/6/1444H (corresponding to 19 January 2023). The management is in process of assessing the impact of the New Companies Law and will amend its By-Laws for any changes to align the By-Laws to the provisions of the Law. Consequently, the Company shall present the amended By-Laws to the shareholders in their Annual General Assembly meeting for their ratification.

Other than the mentioned above, there have been no significant subsequent events since the balance sheet date that would have a material impact on these consolidated financial statements.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2022
(All amounts in Saudi Riyals unless otherwise stated)

33. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors for issuance on 1 Ramadan 1444H corresponding to 23 March 2023.

19-4 Reviewed consolidated financial statements for the Six-month period ending on June 30 2023

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
Condensed Consolidated Interim Financial Statements
(Unaudited)
For the three-month and six-month period ended 30 June 2023
together with the
Independent Auditor's Review Report



KPMG Professional Services

Riyadh Front, Airport Road
P. O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia
Commercial Registration No. 1010425494

Headquarters in Riyadh

كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

المركز الرئيسي في الرياض

Independent auditor's report on review of condensed consolidated interim financial statements

To the Shareholders of Middle East Pharmaceutical Industries and its subsidiaries (A Saudi Closed Joint Stock Company)

Introduction

We have reviewed the accompanying 30 June 2023 condensed consolidated interim financial statements of Middle East Pharmaceutical Industries ("the Company") and its subsidiaries ("the Group") which comprises:

- the condensed consolidated interim statement of financial position as at 30 June 2023;
- the condensed consolidated interim statement of profit or loss and other comprehensive income for the three-month and six-month periods ended 30 June 2023;
- the condensed consolidated interim statement of changes in equity for the six-month period ended 30 June 2023;
- the condensed consolidated interim statement of cash flows for the six-month period ended 30 June 2023;
- and
- the notes to the condensed consolidated interim financial statements.

Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2023 condensed consolidated interim financial statements of Middle East Pharmaceutical Industries Company ("the Company") and its subsidiaries ("the Group") are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

KPMG Professional Services

Fahad Mubark Aldossari

License No: 469

Riyadh: 8 August 2023

Corresponding to: 21 Muharram 1445H



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

كي بي إم جي للاستشارات المهنية شركة مهنية مساهمة مقفلة، مسجلة في المملكة العربية السعودية، رأس مالها (٤٠,٠٠٠,٠٠٠) ريال سعودي مدفوع بالكامل، المسماة سابقاً "شركة كي بي إم جي الفوزان وشركاه محاسبين ومراجعين قانونيين". وهي عضو غير شريك في الشبكة العالمية لشركات كي بي إم جي المستقلة والتابعة لكي بي إم جي العالمية المحدودة، شركة انجليزية محدودة بضمان. جميع الحقوق محفوظة.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
As at 30 June 2023
(All amounts in Saudi Riyals unless otherwise stated)

	<i>Note</i>	30 June 2023 <u>Unaudited</u>	31 December 2022 <u>Audited</u>
ASSETS			
Non-current assets			
Property, plant and equipment	10	108,234,136	105,861,783
Intangible assets	11	43,678,483	41,487,454
Equity investments	12	1,280,287	3,605,451
Total non-current assets		<u>153,192,906</u>	<u>150,954,688</u>
Current assets			
Inventories	9	100,694,561	100,214,552
Trade receivables	7	148,490,971	151,573,888
Prepayments and other current assets	8	9,435,151	13,420,231
Due from related parties	19.1	4,149,583	2,498,670
Cash and cash equivalents	6	9,857,541	23,790,842
Total current assets		<u>272,627,807</u>	<u>291,498,183</u>
Total assets		<u>425,820,713</u>	<u>442,452,871</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	20	200,000,000	200,000,000
Statutory reserve		25,253,411	25,253,411
Other reserve		(26,684,755)	(24,359,591)
Retained earnings		78,927,573	79,379,813
Total equity		<u>277,496,229</u>	<u>280,273,633</u>
Liabilities			
Non-current liabilities			
Loans and borrowings – non current portion	14	6,337,936	9,506,904
Employee benefits	18.1	21,425,134	21,079,851
Total non-current liabilities		<u>27,763,070</u>	<u>30,586,755</u>
Current liabilities			
Short-term loans	13	60,427,751	69,130,087
Loans and borrowings – current portion	14	6,337,936	6,337,936
Trade payables	15	35,752,004	37,954,257
Accruals and other current liabilities	16	14,883,476	12,483,611
Due to a related party	19.2	50,000	100,000
Zakat payable	17.1	3,110,247	5,586,592
Total current liabilities		<u>120,561,414</u>	<u>131,592,483</u>
Total liabilities		<u>148,324,484</u>	<u>162,179,238</u>
Total equity and liabilities		<u>425,820,713</u>	<u>442,452,871</u>

The attached notes from 1 to 32 are an integral part of these condensed consolidated interim financial statements.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME (UNAUDITED)**
For the three-month and six-month period ended 30 June 2023
(All amounts in of Saudi Riyals unless otherwise stated)

	<i>Note</i>	<u>For the three-month period ended 30 June</u>		<u>For the six-month period ended 30 June</u>	
		<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Revenue	22	93,292,073	83,225,798	148,519,022	132,890,356
Cost of revenue	23	(40,627,087)	(34,708,162)	(62,115,272)	(55,068,234)
Gross profit		<u>52,664,986</u>	<u>48,517,636</u>	<u>86,403,750</u>	<u>77,822,122</u>
Selling and distribution expenses	24	(19,650,985)	(17,066,461)	(39,968,744)	(35,770,182)
General and administrative expenses	25	(12,467,592)	(7,898,212)	(22,930,462)	(18,707,271)
Reversal of impairment loss on trade receivables	7	328,606	-	328,606	-
Other expenses		(86,400)	(71,608)	(502,771)	(87,730)
Operating profit		<u>20,788,610</u>	<u>23,481,355</u>	<u>23,330,375</u>	<u>23,256,939</u>
Finance costs	26	(1,244,369)	(1,801,504)	(2,782,615)	(2,705,074)
Profit before zakat		<u>19,544,241</u>	<u>21,679,851</u>	<u>20,547,760</u>	<u>20,551,865</u>
Zakat expense	17.1	(1,500,000)	(1,437,501)	(3,000,000)	(2,875,002)
Profit for the period		<u>18,044,241</u>	<u>20,242,350</u>	<u>17,547,760</u>	<u>17,676,863</u>
Other comprehensive loss					
<i>Items that will not be reclassified to profit or loss:</i>					
Equity investment at FVOCI – net change in fair value	12.1c, 12.2	(1,619,389)	(5,032,854)	(2,325,164)	(4,709,100)
Re-measurements of defined benefit liability	18.1	-	(624,708)	-	(624,708)
Other comprehensive loss for the period		<u>(1,619,389)</u>	<u>(5,657,562)</u>	<u>(2,325,164)</u>	<u>(5,333,808)</u>
Total comprehensive income for the period		<u>16,424,852</u>	<u>14,584,788</u>	<u>15,222,596</u>	<u>12,343,055</u>
Basic and diluted earnings per share	30	<u>0.90</u>	<u>1.01</u>	<u>0.88</u>	<u>0.88</u>

The attached notes from 1 to 32 are an integral part of these condensed consolidated interim financial statements.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
For the six-month period ended 30 June 2023
(All amounts in of Saudi Riyals unless otherwise stated)

	<i>Note</i>	Share capital	Statutory reserve	Retained earnings	Other reserve	Total equity
Balance at 1 January 2023 (audited)		200,000,000	25,253,411	79,379,813	(24,359,591)	280,273,633
Profit for the period (unaudited)		-	-	17,547,760	-	17,547,760
Other comprehensive loss (unaudited)		-	-	-	(2,325,164)	(2,325,164)
Total comprehensive income for the period (unaudited)		-	-	17,547,760	(2,325,164)	15,222,596
Dividends (unaudited)	21	-	-	(18,000,000)	-	(18,000,000)
Balance at 30 June 2023 (unaudited)		200,000,000	25,253,411	78,927,573	(26,684,755)	277,496,229
Balance at 1 January 2022 (audited)		60,000,000	19,308,236	202,220,693	(14,447,828)	267,081,101
Increase in share capital (unaudited)	20	140,000,000	-	(140,000,000)	-	-
Profit for the period (unaudited)		-	-	17,676,863	-	17,676,863
Other comprehensive loss (unaudited)		-	-	-	(5,333,808)	(5,333,808)
Total comprehensive income for the period (unaudited)		-	-	17,676,863	(5,333,808)	12,343,055
Dividends (unaudited)	21	-	-	(16,040,454)	-	(16,040,454)
Balance at 30 June 2022 (unaudited)		200,000,000	19,308,236	63,857,102	(19,781,636)	263,383,702

The attached notes from 1 to 32 are an integral part of these condensed consolidated interim financial statements.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

For the six-month period ended 30 June 2023
(All amounts in Saudi Riyals unless otherwise stated)

		For the six-month period ended 30 June	
	<u>Note</u>	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:			
Profit before zakat		20,547,760	20,551,865
<i>Adjustments to reconcile net income to net cash flows from operating activities:</i>			
Depreciation	10	3,708,527	3,306,233
Amortization	11	2,161,629	1,655,472
Provision for employee benefits	18.1	1,441,454	924,717
Financing cost relating to Murabaha	26	2,200,927	1,988,390
Provision for near expiry and obsolete inventory	9	5,361,739	3,984,323
Loss on disposal of intangible assets	11	453,761	-
Reversal of impairment on trade receivables	7	(328,606)	-
(Gain)/loss on disposal of property, plant and equipment		(739)	56,310
Changes in operating assets and liabilities:			
Trade receivables		3,411,523	(4,801,640)
Prepayments and other current assets		3,985,080	(3,999,243)
Inventories		(5,841,748)	(18,580,694)
Trade payables		(2,202,253)	4,630,589
Amount due to related parties		(100,000)	-
Accruals and other current liabilities		2,007,149	4,017,456
Cash generated from operating activities		<u>36,806,203</u>	<u>13,733,778</u>
Zakat paid	17.2	(5,476,345)	(4,775,501)
Employee benefits paid	18.1	(1,096,171)	(994,069)
Net cash generated from operating activities		<u>30,233,687</u>	<u>7,964,208</u>
Cash flows from investing activities:			
Acquisition of property, plant and equipment	10	(6,086,511)	(3,153,830)
Purchase of intangible assets	11	(4,806,419)	(3,750,868)
Proceeds from disposal of property, plant and equipment		6,370	27,778
Net cash used in investing activities		<u>(10,886,560)</u>	<u>(6,876,920)</u>
Cash flows from financing activities:			
Proceeds from short-term loans during the period	13	24,423,670	66,064,258
Repayments of short-term loans during the period	13	(33,126,006)	(55,698,466)
Repayments of long-term loans during the period	14	(3,168,968)	-
Dividends paid	21	(18,000,000)	(16,040,454)
Financing cost paid relating to Murabaha	27	(1,758,211)	(1,988,390)
Due from shareholders	19.1	(1,650,913)	(554,329)
Net cash used in financing activities		<u>(33,280,428)</u>	<u>(8,217,381)</u>
Net changes in cash and cash equivalents		(13,933,301)	(7,130,093)
Cash and cash equivalents at the beginning of year		23,790,842	19,035,572
Cash and cash equivalents at end of the year	6	<u>9,857,541</u>	<u>11,905,479</u>
Significant non-cash transactions:			
- Equity investment at FVOCI- net change in fair value	12.1c	2,325,164	4,709,100
-Borrowing cost capitalized	10.4	597,931	339,924

The attached notes from 1 to 32 are an integral part of these condensed consolidated interim financial statements.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)
For the six-month period ended 30 June 2023
(All amounts in Saudi Riyals unless otherwise stated)

1. REPORTING ENTITY

Middle East Pharmaceutical Industries Company (“the Company”) was a Limited Liability Company incorporated in Riyadh, Kingdom of Saudi Arabia under Commercial Registration No. 1010150538 on 2 Rabi II 1419H (corresponding to 27 July 1998).

The Company has applied to the Ministry of Commerce to convert the legal status of the Company from a limited liability company to a closed joint stock company, pursuant to the shareholders’ decision. On 21 Sha’ban 1443H (corresponding to 24 March 2022) the Ministry of Commerce has approved the conversion from a limited liability company to a Saudi closed joint stock company.

The Company’s registered office is located at the following address:

8146 King Muhammad V, Sulaimaniyah,
P.O. Box 4180
Riyadh 11491
Kingdom of Saudi Arabia

The Company has twelve (12) branches incorporated in the Kingdom of Saudi Arabia. The condensed consolidated interim financial statements include the results of the twelve (12) branches listed below:

<u>Branch name</u>	<u>Commercial registration number</u>
Middle Pharmaceutical Industries Company Branch	1010274622
Middle Pharmaceutical Industries Company Branch	1010560224
Middle East Distribution Company Ltd.	1010394325
Middle East Distribution Company Ltd.	1010175025
Middle East Distribution Branch – Jeddah	4030278683
Middle East Distribution Branch – Jeddah	4030161826
Middle East Distribution Branch – Dammam	2050061104
Middle East Distribution Branch – Dammam	2050168074
Middle East Warehouse Branch – Riyadh	1010653238
Middle Pharmaceutical Industries Company-Riyadh	1010728546
Comprehensive Distribution Company-Riyadh	1010252567
Middle Pharmaceutical Industries Co. Ltd. (Avalon Pharma) – Dubai	100636

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)
For the six-month period ended 30 June 2023
(All amounts in Saudi Riyals unless otherwise stated)

1. REPORTING ENTITY (CONTINUED)

The Company and its subsidiaries, mentioned below, (collectively referred to as “the Group”) is engaged in manufacturing medicines, medicated and non-medicated creams and gels.

Following subsidiaries are included in the condensed consolidated interim financial statements as of 30 June 2023 and 30 June 2022:

<u>Name</u>	<u>Registered office</u>	<u>Cost of investment (In GBP*)</u>	<u>Number of shares</u>	<u>Percentage of ownership</u>	
				<u>Direct</u>	<u>Indirect</u>
Avalon Pharma UK Holdings Limited	UK	1	1	100	-
Avalon Cosmetics Limited	UK	1	1	-	100
Avalon Pharma Limited	UK	1	1	-	100
Avalon Nutrition Limited	UK	1	1	-	100

*GBP – Great Britain Pound

2. BASIS OF ACCOUNTING

2.1 Statement of compliance

The condensed consolidated interim financial statements of the Group have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Chartered and Professional Accountants (SOCPA).

The condensed consolidated interim financial statements do not include all the information required for a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”) that are endorsed in Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA, and should be read in conjunction with Group’s last consolidated annual financial statements as at and for the year ended 31 December 2022 (“last annual consolidated financial statements”).

2.2 Basis of measurement

These condensed consolidated interim financial statements have been prepared under the historical cost convention and going concern assumption, except for the employees’ defined benefits obligations which is measured using the projected unit credit method and equity investments at Fair Value through Other Comprehensive Income (FVOCI), which are measured at fair value.

2.3 Functional and presentation currency

These condensed consolidated interim financial statements are presented in Saudi Riyal (SAR) which is the functional currency of the Company. All amounts rounded to the nearest Saudi Riyal.

3. USE OF JUDGMENTS AND ESTIMATES

In preparing these condensed consolidated interim financial statements, we make estimates and judgments that affect the amounts recorded. Actual results could differ from our estimates. Our estimates and judgments are based on historical experience and other factors we consider reasonable, including expectations of future events. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates.

MIDDLE EAST PHARMACEUTICAL INDUSTRIES COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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3. USE OF JUDGMENTS AND ESTIMATES (CONTINUED)

The significant judgments made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the Group's last annual financial statements for the year ended 31 December 2022.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's last annual financial statements for the year ended 31 December 2022.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following are number of new standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these condensed consolidated interim financial statements.

New currently effective requirement

1 January 2023	IFRS 17 Insurance Contracts, including amendments Initial Application of IFRS 17 and IFRS 9 – Comparative Information
1 January 2023	Disclosure Initiative: Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2
1 January 2023	Definition of Accounting Estimates – Amendments to IAS 8
1 January 2023	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12

Forthcoming requirements

1 January 2024	Classification of Liabilities as Current or Non-current – Amendments to IAS 1 and Non-current liabilities with covenants – Amendments to IAS 1
1 January 2024	Lease Liability in a Sale and Leaseback – Amendments to IFRS 16
To be determined	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

The new and amended standards mentioned above are not expected to have a significant impact on the Group's condensed consolidated interim financial statements.

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6. CASH AND CASH EQUIVALENTS

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Cash on hand	219,404	168,565
Cash at banks – current accounts	9,638,137	23,622,277
	<u>9,857,541</u>	<u>23,790,842</u>

The management has conducted a review as required and based on such assessment; management believes that there is no need for any significant impairment loss against the carrying value of cash equivalents.

7. TRADE RECEIVABLES

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Trade receivables	156,195,741	159,607,264
Less: Impairment loss on trade receivables	(7,704,770)	(8,033,376)
	<u>148,490,971</u>	<u>151,573,888</u>

Movement in the allowance for impairment as per ECL model in respect to trade receivables is as follows:

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Opening balance	8,033,376	7,903,376
Allowance (reversal) for the period / year	(328,606)	130,000
Closing balance	<u>7,704,770</u>	<u>8,033,376</u>

For financial assets measured at amortized cost (cash, cash equivalent and trade receivable), the fair value approximates the carrying amount.

8. PREPAYMENTS AND OTHER CURRENT ASSETS

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Advances to suppliers	3,295,542	4,737,344
Margin deposit on letters of credit and guarantee	1,583,258	1,428,976
Due from employees	935,743	987,076
Prepaid iqama fees	757,104	998,680
VAT refundable	698,359	2,166,351
Prepaid employee tickets	668,263	-
Prepaid subscription fees	409,582	407,540
Prepaid insurance	199,570	2,001,052
Other	887,730	693,212
	<u>9,435,151</u>	<u>13,420,231</u>

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9. INVENTORIES

	30 June 2023	31 December 2022
	(Unaudited)	(Audited)
Packaging materials	34,108,684	30,215,927
Finished products	33,619,534	36,883,268
Raw materials	26,658,410	26,538,038
Consumable supplies	7,165,254	7,014,263
Spare parts inventory	1,619,090	1,507,428
Work-in-progress	392,562	295,472
	103,563,534	102,454,396
Less: Provision for near expiry and obsolete inventory	(2,868,973)	(2,239,844)
Inventories, net	100,694,561	100,214,552
	30 June 2023	31 December 2022
	(Unaudited)	(Audited)
Opening balance	2,239,844	626,023
Add: provision for near expiry and obsolete inventory	5,361,739	9,520,608
Less: write off during the period	(4,732,610)	(7,906,787)
	629,129	1,613,821
Balance at the end of the period	2,868,973	2,239,844

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10. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machineries	Furniture and office equipment	Motor vehicles	Computers	Tools	Assets under construction	Total
Cost:									
At 1 January 2023	10,192,286	86,530,679	28,656,654	6,210,557	5,938,284	4,943,616	11,244,861	17,333,906	171,050,843
Additions	-	375,736	59,516	485,772	437,000	463,073	98,111	4,167,303	6,086,511
Disposals	-	-	-	(3,327)	-	(11,638)	(150,000)	-	(164,965)
Transfers (note 10.2)	-	1,511,548	-	-	-	-	-	(1,511,548)	-
Reclassification	-	-	-	(330,637)	-	-	330,637	-	-
At 30 June 2023	10,192,286	88,417,963	28,716,170	6,362,365	6,375,284	5,395,051	11,523,609	19,989,661	176,972,389
Accumulated depreciation:									
At 1 January 2023	-	19,740,591	25,558,410	4,902,026	3,613,611	3,624,061	7,750,361	-	65,189,060
Charges for the six-month period ended 30 June 2023	-	2,144,036	362,572	185,699	295,110	325,686	395,424	-	3,708,527
Disposals	-	-	-	(3,316)	-	(6,018)	(150,000)	-	(159,334)
Reclassification	-	-	-	-	-	-	-	-	-
At 30 June 2023	-	21,884,627	25,920,982	5,084,409	3,908,721	3,943,729	7,995,785	-	68,738,253
Net book value:									
At 30 June 2023 (unaudited)	10,192,286	66,533,336	2,795,188	1,277,956	2,466,563	1,451,322	3,527,824	19,989,661	108,234,136

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10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

<u>Cost:</u>	Land	Buildings	Machineries	Furniture and office equipment	Motor vehicles	Computers	Tools	Assets under construction	Total
At 1 January 2022	10,192,286	54,192,138	27,457,416	6,429,806	4,010,721	4,365,051	10,688,766	46,004,198	163,340,382
Additions	-	487,517	-	334,829	22,044	5,410	33,799	8,693,470	9,577,069
Disposals	-	(255,075)	(68,135)	(753,614)	(448,680)	(141,414)	(199,690)	-	(1,866,608)
Transfers (note 10.2)	-	32,106,099	1,267,373	464,536	2,354,199	714,569	456,986	(37,363,762)	-
Reclassification	-	-	-	(265,000)	-	-	265,000	-	-
At 31 December 2022	10,192,286	86,530,679	28,656,654	6,210,557	5,938,284	4,943,616	11,244,861	17,333,906	171,050,843
<u>Accumulated depreciation:</u>									
At 1 January 2022	-	16,722,919	23,959,400	5,254,288	3,619,808	3,226,507	7,102,759	-	59,885,681
Charges for the period	-	3,093,729	1,631,275	384,287	359,726	537,653	834,291	-	6,840,961
Disposals	-	(76,057)	(32,265)	(723,590)	(365,923)	(140,099)	(199,648)	-	(1,537,582)
Reclassification	-	-	-	(12,959)	-	-	12,959	-	-
At 31 December 2022	-	19,740,591	25,558,410	4,902,026	3,613,611	3,624,061	7,750,361	-	65,189,060
<u>Net book value:</u>									
At 31 December 2022 (audited)	10,192,286	66,790,088	3,098,244	1,308,531	2,324,673	1,319,555	3,494,500	17,333,906	105,861,783

10.1 Depreciation has been allocated as follows:

	For the three-month period ended 30 June		For the six-month period ended 30 June	
	2023	2022	2023	2022
Cost of revenue (Note 23)	1,034,829	1,099,912	2,059,655	2,148,560
Selling and distribution expense (Note 25)	278,749	57,191	535,830	112,439
General and administrative expenses (Note 26)	565,510	518,764	1,113,042	1,045,234
	1,879,088	1,675,867	3,708,527	3,306,233

10.2 Assets under construction include the new warehouse for storage of raw materials and finished goods inventories. They also include expansion of two existing factories to increase the production capacity. During 30 June 2023, the new warehouse has become operational and a total of SAR 1,511,548 (31 December 2022: SAR 37,363,762) assets under construction were completed and transferred.

10.3 The Group's headquarter building (title deeds number 610124040243 and 810124040242) with a book value of SAR 19,850,154 as of 30 June 2023, is currently mortgaged to local bank as a loan security. (Note 14)

10.4 Additions for the assets under construction includes capitalized borrowing cost of SAR 597,931 (31 December 2022: SAR 351,819).

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11. INTANGIBLE ASSETS

	Software and licenses	Registered developed products	Total
Cost:			
1 January 2023	9,462,179	46,445,684	55,907,863
Additions	98,547	4,707,872	4,806,419
Write-offs/disposals	-	(453,761)	(453,761)
At 30 June 2023	9,560,726	50,699,795	60,260,521
Accumulated amortization:			
1 January 2023	3,808,485	10,611,924	14,420,409
Charges for the period	477,408	1,684,221	2,161,629
At 30 June 2023	4,285,893	12,296,145	16,582,038
Net book value:			
At 30 June 2023 (unaudited)	5,274,833	38,403,650	43,678,483
Cost:			
1 January 2022	8,681,321	36,251,826	44,933,147
Additions	780,858	10,250,108	11,030,966
Write-offs/disposals	-	(56,250)	(56,250)
At 31 December 2022	9,462,179	46,445,684	55,907,863
Accumulated amortization:			
1 January 2022	2,939,601	7,701,739	10,641,340
Charges for the period	868,884	2,910,185	3,779,069
At 31 December 2022	3,808,485	10,611,924	14,420,409
Net book value:			
At 31 December 2022 (audited)	5,653,694	35,833,760	41,487,454

11.1 Amortization has been allocated as follows:

	For the three-month period ended 30 June		For the six-month period ended 30 June	
	2023	2022	2023	2022
Cost of revenue (Note 23)	3,511	3,511	6,983	6,983
General and administrative expenses (Note 26)	1,085,973	828,276	2,154,646	1,648,489
	1,089,484	831,787	2,161,629	1,655,472

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12. EQUITY INVESTMENTS

The Group designated the investments shown below as equity securities at FVOCI because these equity securities represent investments that the Group intends to hold for the long-term for strategic purposes.

	30 June 2023	31 December 2022
	(Unaudited)	(Audited)
Equity investments in:		
- Columbia Care Inc.	(12.1) 1,280,287	2,207,390
- Nuha Consultancy	(12.2) -	1,090,816
- Emulsion Cosmetics Limited	(12.2) -	307,245
	1,280,287	3,605,451

Movement in Equity Investments:

	Columbia Care Inc	Nuha Consultancy	Emulsion Cosmetics Limited	Total
Balance at 1 January 2023	2,207,390	1,090,816	307,245	3,605,451
Less: Net change in fair value for the period	(927,103)	(1,090,816)	(307,245)	(2,325,164)
Balance at 30 June 2023	1,280,287	-	-	1,280,287

	Columbia Care Inc	Nuha Consultancy	Emulsion Cosmetics Limited	Total
Balance at 1 January 2022	8,417,517	1,090,816	307,245	9,815,578
Less: Net change in fair value for the period	(6,210,127)	-	-	(6,210,127)
Balance at 31 December 2022	2,207,390	1,090,816	307,245	3,605,451

12.1 Columbia Care Inc (CCI)

- a) On 28 July 2020, the Company purchased 5% shares in Columbia Care International HoldCo LLC (“CCIH”) in consideration for EUR 5,000,000 (equivalent to SAR 21,485,620), which approximates the fair value as on 31 December 2020.
- b) On 12 March 2021, a share redemption agreement (“the agreement”) was entered by the Company with following parties:
 - i. Columbia Care International HoldCo LLC (“CCIH”), a Delaware limited liability company;
 - ii. Columbia Care Inc (“CCI”), a company listed on NEO Exchange, Canada; and
 - iii. Columbia Care LLC (“CC”), a Delaware limited liability company and a wholly owned subsidiary of CCI.

Under the agreement, the 5% shares of CCIH, owned by the Company, were exchanged for 783,805 shares of CCI at the 20-days VWAP price of CAD 7.95 per share, totaling to CAD 6,231,250 (equivalent to SAR 18,729,163). Accordingly, the Company had recorded a loss on disposal of CCIH shares amounting to SAR 2,756,457.

- c) At 30 June 2023, the market price of CCI share was USD 0.44 per share, which resulted into a fair value loss amounting to SAR 927,103. (Loss for year ended 31 December 2022: SAR 6,210,127)

The management uses level one of fair value hierarchy which is observable share price as a valuation technique.

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12. EQUITY INVESTMENTS (CONTINUED)

12.2 Nuha Consultancy and Emulsion Cosmetics Limited

Nuha Consultancy, incorporated in British Virgin Island and Emulsion Cosmetics Limited, incorporated in England and Wales, are engaged in retail sale of cosmetic and toilet articles in specialized stores.

During March 2020, Avalon Cosmetics Limited, an indirect fully owned subsidiary of the Company (refer Note 1), has purchased 15% shares each in Nuha Consultancy and Emulsion Cosmetics Limited, for a total consideration of SAR 1,090,816 and SAR 140,754, respectively.

On 8 April 2021 and 21 December 2021, Avalon Cosmetics Limited has contributed an additional capital amounting to SAR 73,352 and SAR 93,139, respectively in Emulsion Cosmetics Limited. Accordingly, as at 30 June and 31 December 2022, investment in Emulsion Cosmetics Limited was SAR 307,245.

These equity investments are fair valued as at 30 June 2023 and the fair value of both the investments, Nuha Consultancy and Emulsion Cosmetics Limited are SAR nil. Accordingly, the aggregated fair value loss is SAR 1,398,061 (31 December 2022 SAR nil).

13. SHORT-TERM LOANS

The Company has obtained Murabahah and Musharika financing from various commercial banks at agreed commercial rates. The balance outstanding are as follow:

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Opening balance	69,130,087	66,436,956
Proceeds from loans during the period / year	24,423,670	121,941,974
Repayments during the period / year	<u>(33,126,006)</u>	<u>(119,248,843)</u>
Closing balance	<u>60,427,751</u>	<u>69,130,087</u>

The local bank loans are secured by personal guarantees from the Company's shareholders.

Financial charges rates on loans range between 1.75% to 2.25%+SAIBOR

14. LOANS AND BORROWINGS

The long-term loan was taken from a local bank and is secured by personal guarantees of the Group's shareholders and the Group's headquarter building with a book value of SAR 19,850,154 Long-term loan bears commission at agreed commercial rates which is SAIBOR plus 1.75% p.a. payable in thirteen equal quarterly instalments beginning September 2022.

Movement of the long-term loans is as follows:

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Opening balance	15,844,840	20,598,291
Repayments during the period / year	<u>(3,168,968)</u>	<u>(4,753,451)</u>
Closing balance	<u>12,675,872</u>	<u>15,844,840</u>

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14. LOANS AND BORROWINGS (CONTINUED)

Based on the loan repayment schedules, the outstanding balances as at year end are as follow:

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Current portion	6,337,936	6,337,936
Non-current portion	<u>6,337,936</u>	<u>9,506,904</u>
	<u>12,675,872</u>	<u>15,844,840</u>

15. TRADE PAYABLES

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Local suppliers	20,202,270	20,508,413
Foreign suppliers	<u>15,549,734</u>	<u>17,445,844</u>
	<u>35,752,004</u>	<u>37,954,257</u>

For financial liabilities measured at amortized cost (Trade payables, short-term loans and loans and borrowings), the fair value approximates the carrying amount.

16. ACCRUALS AND OTHER CURRENT LIABILITIES

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Salaries and related benefits	4,930,425	6,561,792
Marketing and advertising	4,213,785	1,205,950
Loans financing cost relating to Murabaha	1,250,186	807,470
Board and committee members remuneration	1,175,000	1,150,000
Customers advanced payments	1,002,586	1,166,787
Professional fees	690,635	729,175
Due to employees	607,781	352,699
Others	<u>1,013,078</u>	<u>509,738</u>
	<u>14,883,476</u>	<u>12,483,611</u>

17. ZAKAT

17.1 Zakat provision

Movement in Zakat provision for the year is as follows:

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Balance at beginning of the period / year	5,586,592	4,790,776
Provision for zakat for the period / year	<u>3,000,000</u>	<u>5,571,317</u>
	<u>8,586,592</u>	<u>10,362,093</u>
Payments made during the period / year	<u>(5,476,345)</u>	<u>(4,775,501)</u>
Balance at end of the period / year	<u>3,110,247</u>	<u>5,586,592</u>

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17. ZAKAT (CONTINUED)

17.1 Status of Zakat assessment

Zakat, Tax and Customs Authority (“ZATCA”) issued the last final assessment for the year ended 31 December 2017, and the Company has paid all the amounts based on the final assessment.

Zakat declaration for and up to the years ended 31 December 2022 have been submitted to ZATCA. However, up to the date of this condensed consolidated interim financial statements, there is no assessment has been finalized after the assessment finalized by ZATCA for the year ended 31 December 2017.

18. EMPLOYEE BENEFITS

The Group operates a defined benefit plan in line with the labor law requirements applicable in the Kingdom of Saudi Arabia. The payments under this plan are based on the employees’ final salaries, allowances and their cumulative years of service at the date of their termination of employment.

All Group’s employees’ termination benefit plans are unfunded.

18.1 Amounts in the statement of financial position

The amounts recognised in the consolidated statement of financial position and the movements in the defined benefit obligation are as follows:

	30 June 2023	31 December 2022
	<u>(Unaudited)</u>	<u>(Audited)</u>
Opening balance	21,079,851	16,611,346
Advances paid against benefits	2,986,187	2,986,187
<i>Recognised in the condensed consolidated interim statement of profit or loss</i>		
Current service cost	859,766	2,115,348
Interest cost	581,688	747,373
	<u>1,441,454</u>	<u>2,862,721</u>
<i>Recognised in the condensed consolidated interim statement of comprehensive income</i>		
Actuarial loss	-	3,701,639
Settlements during the period / year	<u>(1,096,171)</u>	<u>(2,095,855)</u>
Present value of defined benefit obligation	24,411,321	24,066,038
Advances paid against benefits	<u>(2,986,187)</u>	<u>(2,986,187)</u>
Closing balance	<u>21,425,134</u>	<u>21,079,851</u>

18.2 Significant actuarial assumptions

The significant actuarial assumptions used were as follows:

	30 June 2023	31 December 2022
	<u>(Unaudited)</u>	<u>(Audited)</u>
<i>Economic assumptions:</i>		
<i>Discount Rate</i>	4.50%	4.50%
Salary increases rate (long-service)	5%	5%
Rates of employee turnover	15.00%	18.45%
<i>Demographics assumptions</i>		
Number of employees	536	533
Average age of employees (years)	37.17	36.44
Average years of past service	6.32	5.64
Retirement age	60	60

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18. EMPLOYEE BENEFITS (CONTINUED)

18.3 Sensitivity analysis

The sensitivity of the defined benefit obligations to changes in the weighted principal assumptions made in the calculation is:

	Change in assumption	30 June 2023 (net liability)	31 December 2022 (net liability)
Long term salary increases	0.5% Decrease	23,521,869	25,195,940
	0.5% Increase	24,631,226	26,537,137
Discount rate	0.5% Decrease	26,543,856	24,660,280
	0.5% Increase	25,195,940	23,500,320

19. RELATED PARTIES TRANSACTIONS

Related parties include subsidiary companies, major shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties.

Transactions with related parties carried out during the period / year, in the normal course of business, are approved by Group management. The transactions and balances with related parties are as follows:

19.1 Due from related parties

Related party	Relationship	Nature of transactions	Transactions for six-month period ended		Balance	
			30 June 2023	30 June 2022	30 June 2023	31 December 2022
Shareholders*	Shareholder	Payments of IPO costs on behalf of the shareholders	2,600,727	703,516	3,930,515	1,329,788
Mr. Ahmad Shahir Tabbaa	Shareholder	Advances	(949,814)	356,206	-	949,814
Emulsion Cosmetics Limited	Investee	Advances	-	219,068	219,068	219,068
			<u>1,650,913</u>	<u>1,278,790</u>	<u>4,149,583</u>	<u>2,498,670</u>

* The Company has paid IPO costs on behalf of all the shareholders in their respective ownership as mentioned in note 20.

19.2 Due to a related party

Related party	Relationship	Nature of transactions	Transactions for six-month period ended		Balance	
			30 June 2023	30 June 2022	30 June 2023	31 December 2022
Faisal Shahir Tabbaa Attorney and Legal Consultant	Affiliate*	Paid consulting services	150,000	60,000	50,000	100,000
			<u>150,000</u>	<u>60,000</u>	<u>50,000</u>	<u>100,000</u>

* Faisal Shahir Tabbaa Attorney and Legal Consultant is Law firm which is owned by Mr. Faisal Shahir Tabbaa, shareholder.

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19. RELATED PARTIES TRANSACTIONS (CONTINUED)

19.3 Compensation and benefits to key managements personnel:

	For the three-month period ended		For the six-month period ended	
	30 June 2023	30 June 2022	30 June 2023	30 June 2022
Short-term employee benefits	2,255,445	2,259,948	4,383,935	4,432,834
Employees' defined benefits obligations	128,900	140,489	252,053	745,436
Total compensation and benefits to key managements personnel	2,384,345	2,400,437	4,635,988	5,178,270

The compensation and benefits to key management personnel, included in salaries and other related benefits, are allocated as follows:

	For the three-month period ended		For the six-month period ended	
	30 June 2023	30 June 2022	30 June 2023	30 June 2022
General and administrative expenses	1,697,612	1,784,165	3,271,314	3,946,178
Cost of revenue	206,692	481,310	404,662	962,319
Selling and distribution expense	480,041	134,962	960,012	269,773
	2,384,345	2,400,437	4,635,988	5,178,270

20. SHARE CAPITAL

On 20 Rajab 1443H (corresponding to 21 February 2022), the authorized and paid-up share capital has been increased to SAR 200 million divided into 20 million shares of SAR 10 each. The increase in share capital amounting to SAR 140,000,000 has been done out of retained earnings. All legal proceedings have been completed in this respect.

	<u>No. of shares</u>	<u>Par value</u>	<u>Total</u>
30 June 2023	20,000,000	10.00	200,000,000
31 December 2022	20,000,000	10.00	200,000,000

On 1 May 2023, Mr. Ahmed Shaher Tabbaa, Chairman of the Board of Directors, who owns 60.25% of the Company's shares, transferred his ownership to Tabbaa National Holding Company. On the same date, Mr. Faisal Al Jaman, who owns 3.75% of the Company's shares, transferred his 1.25% shares to Dorrat Al-Faisal Investment Company and 2.5% shares to Dorra Al-Wadaa Investment Company. As a result, the Company's shareholders and their shareholdings, at 30 June 2023 and 31 December 2022 are as follows:

<u>Name of shareholders</u>	<u>No. of shares</u>	<u>Value (SAR)</u>	<u>Percentage (%)</u>
Tabbaa National Holding Company	12,050,000	120,500,000	60.25
Mr. Talal Yousef Mahmoud Zahid	4,200,000	42,000,000	21.00
Mr. Ali Shahir Tabbaa	1,320,000	13,200,000	6.60
Mr. Faisal Shahir Tabbaa	1,280,000	12,800,000	6.40
Dorra Al-Wadaa Investment Company	500,000	5,000,000	2.50
Mr. Yousef Talal Zahid	400,000	4,000,000	2.00
Dorrat Al-Faisal Investment Company	250,000	2,500,000	1.25
	20,000,000	200,000,000	100.00

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21. DIVIDENDS

During the current period, the Board of Directors has approved interim dividends amounting to SAR 18,000,000 (30 June 2022: SAR 16,040,454) (31 December 2022: SAR 36,347,454); The same amount has been paid during the period. The interim dividends will be endorsed by the general assembly in their next annual general meeting.

	For the three-month period ended		For the six-month period ended	
	30 June <u>2023</u>	30 June <u>2022</u>	30 June <u>2023</u>	30 June <u>2022</u>
Shareholders' dividends paid	9,000,000	7,786,500	18,000,000	16,040,454
	<u>9,000,000</u>	<u>7,786,500</u>	<u>18,000,000</u>	<u>16,040,454</u>

22. REVENUE

The breakdown of revenue by **customer type** is as follows:

	For the three-month period ended		For the six-month period ended	
	30 June <u>2023</u>	30 June <u>2022</u>	30 June <u>2023</u>	30 June <u>2022</u>
<i>Revenue from:</i>				
Private customers	67,459,778	63,546,154	103,741,363	100,251,490
Public & related customers*	18,471,271	15,917,998	33,863,317	26,383,382
Local customers	85,931,049	79,464,152	137,604,680	126,634,872
Export customers	7,361,024	3,761,646	10,914,342	6,255,484
	<u>93,292,073</u>	<u>83,225,798</u>	<u>148,519,022</u>	<u>132,890,356</u>

* *Public and related customers revenue include revenue under Wasfaty Program.*

All the revenue is recognised at a point in time at which the performance obligation is satisfied.

Seasonal nature of operations

Due to the seasonal nature of the operations of the Company, higher revenues and operating profits are usually expected in the remaining six months of the year in comparison to the first six months.

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23. COST OF REVENUE

	<u>For the three-month period ended</u>		<u>For the six-month period ended</u>	
	<u>30 June 2023</u>	30 June <u>2022</u>	<u>30 June 2023</u>	30 June <u>2022</u>
Beginning inventory finished goods (Note 9)	41,642,641	28,165,913	36,883,268	24,110,731
Add: Direct purchases	1,049,719	286,767	2,071,074	501,474
Add: Cost of goods manufactured:				
Raw materials cost	8,941,159	8,347,535	17,090,736	15,815,767
Packing materials cost	8,522,699	10,108,104	18,065,917	18,743,048
Indirect labor	4,307,601	4,327,303	8,284,181	8,216,901
Direct labor	2,092,446	1,212,124	4,079,837	2,989,233
Depreciation (Note 10)	1,034,829	1,099,912	2,059,655	2,148,560
Amortization (Note 11)	3,511	3,511	6,983	6,983
Other Overheads	6,652,016	7,856,238	7,193,155	9,234,782
Total cost of goods manufactured	31,554,261	32,954,727	56,780,464	57,155,274
Less: Ending inventory finished goods (Note 9)	(33,619,534)	(26,699,245)	(33,619,534)	(26,699,245)
	40,627,087	34,708,162	62,115,272	55,068,234

24. SELLING AND DISTRIBUTION EXPENSES

	<u>For the three-month period ended</u>		<u>For the six-month period ended</u>	
	<u>30 June 2023</u>	30 June <u>2022</u>	<u>30 June 2023</u>	30 June <u>2022</u>
Salaries and other related benefits	7,547,871	4,523,183	15,586,013	12,174,392
Marketing and advertising expenses	4,758,565	7,263,024	11,334,904	12,378,213
Housing and accommodation expenses	1,801,536	1,609,810	3,579,855	3,204,447
Freight	1,768,989	565,772	2,235,030	1,907,353
Employees' transportation allowance	812,289	787,475	1,611,762	1,549,792
Travelling expenses	787,471	496,492	1,282,338	945,335
Employees' GOSI expenses	385,586	373,974	758,967	729,504
Employees' medical insurance	344,151	340,604	678,166	678,068
Employees' visa and iqama expenses	324,333	236,811	590,055	438,142
Legal and government fees	238,190	79,761	569,531	359,270
Depreciation (Note 10.1)	278,749	57,191	535,830	112,439
Others	603,255	732,364	1,206,293	1,293,227
	19,650,985	17,066,461	39,968,744	35,770,182

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25. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>For the three-month period ended</u>		<u>For the six-month period ended</u>	
	<u>30 June 2023</u>	30 June 2022	<u>30 June 2023</u>	30 June 2022
Salaries and other related benefits	2,876,845	2,129,970	6,300,522	6,616,847
Professional fees	1,829,893	556,393	2,240,229	917,432
Amortization (Note 11.1)	1,085,973	828,276	2,154,646	1,648,489
Housing and accommodation expenses	934,076	901,351	1,795,869	1,738,190
Communication expenses	876,077	285,027	1,595,264	1,309,738
Legal and government fees	823,026	380,346	1,152,819	723,726
Depreciation (Note 10.1)	565,510	518,764	1,113,042	1,045,234
Consumables expenses	464,643	137,246	997,101	466,665
Board and committee members remuneration	650,000	-	950,000	-
Fees on letter of guarantee / credit	399,260	142,220	743,385	253,705
Employee GOSI expenses	273,929	339,945	543,783	538,448
Employees' transportation allowance	258,770	246,201	493,771	477,780
Employees' medical insurance	245,573	249,553	465,933	468,797
Travelling expenses	215,363	233,051	400,894	495,703
Repairs and maintenance	14,870	155,965	367,581	355,718
Others	953,784	793,904	1,615,623	1,650,799
	<u>12,467,592</u>	<u>7,898,212</u>	<u>22,930,462</u>	<u>18,707,271</u>

26. FINANCE COSTS

	<u>For the three-month period ended</u>		<u>For the six-month period ended</u>	
	<u>30 June 2023</u>	30 June 2022	<u>30 June 2023</u>	30 June 2022
Financing cost relating to Murabaha	951,644	1,084,820	2,200,927	1,988,390
Net interest cost: Employees' defined benefits obligations (note 18.1)	292,725	716,684	581,688	716,684
	<u>1,244,369</u>	<u>1,801,504</u>	<u>2,782,615</u>	<u>2,705,074</u>

27. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT

Accounting classification and fair values

The carrying amount of financial assets and financial liabilities is a reasonable approximation of the respective financial assets and financial liabilities fair value.

Financial risk management

The Group has exposure to the following risk arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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27. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

The carrying amounts of financial assets and contract assets represent the maximum credit exposure.

A reversal of allowance for impairment loss of SAR 328,606 on financial assets was recognized in the condensed consolidated interim financial statements during the period 30 June 2023 as per ECL provision. Meanwhile, on year ended 31 December 2022 an additional allowance for impairment loss of SAR 130,000 was recognized.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry in which the customers operate.

The Group a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered to the customer. Management ensures that sales made to customers are within the respective customers' credit limit.

The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of six months for its customers.

In monitoring customer credit risk, customers are combined according to their credit characteristics, including whether they are retail, public or export customers; their geographic location; and the existence of previous and current financial difficulties.

The credit risk of bank balances is limited as cash balances amounting to SAR 9,638,137 (31 December 2022: SAR 23,622,277) are held with banks with sound credit ratings ranging from BBB+ to A+.

The Group does not have significant concentration of credit risk.

The exposure to credit risk for trade receivables by type of counterparty was as follows:

	Carrying amount	
	30 June	31 December
	<u>2023</u>	<u>2022</u>
Private customers	86,517,655	76,439,435
Public & related customers	64,424,719	77,106,427
Export customers	5,253,367	6,061,402
Total gross carrying amount	156,195,741	159,607,264
Less: loss allowance	(7,704,770)	(8,033,376)
Total net carrying amount	148,490,971	151,573,888

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27. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

i) Credit risk (continued)

The ageing of trade receivables that were past due but not impaired and trade receivables due and impaired is as follows:

	30 June 2023	31 December 2022
Due but not impaired	148,490,971	151,573,888
Due and impaired	7,704,770	8,033,376
	156,195,741	159,607,264

The Group uses an allowance matrix to measure expected credit losses (ECLs) of trade receivables from individual customers, which comprise a very large number of small balances. Loss rates are calculated using a “roll rate” method based on the probability of a receivable progressing through successive stages of delinquency to write off. These rates are multiplied by scalar factors to reflect differences in economic conditions during the period over which the historical data has been collected, current conditions and the Group’s view of economic conditions over the expected lives of the receivables. Any customers wherein there is specific indicators or factors which lead management to believe that the recovery of the amount is doubtful are provided for separately. The following table provides information about the exposure to credit risk for trade receivables:

30 June 2023			
	<i>Weighted-average loss rate</i>	<i>Gross carrying amount</i>	<i>Impairment loss allowance</i>
Current (not past due)	0.00%	104,785,084	-
1 to 30 past due	2.30%	2,866,182	(65,849)
31 to 60 past due	12.91%	1,202,683	(155,279)
61 to 90 past due	14.08%	1,002,238	(141,067)
91 to 180 past due	14.44%	2,376,619	(343,236)
181 to 365 past due	11.86%	4,420,240	(524,346)
More than 365 past due	16.37%	39,542,695	(6,474,993)
		156,195,741	(7,704,770)
31 December 2022			
	<i>Weighted-average loss rate</i>	<i>Gross carrying amount</i>	<i>Impairment loss allowance</i>
Current (not past due)	0.00%	102,329,976	-
1 to 30 past due	1.28%	4,029,105	(51,551)
31 to 60 past due	8.01%	2,406,123	(192,846)
61 to 90 past due	17.51%	1,402,258	(245,555)
91 to 180 past due	14.21%	3,482,332	(494,844)
181 to 365 past due	10.90%	9,497,396	(1,035,335)
More than 365 past due	16.49%	36,460,074	(6,013,245)
		159,607,264	(8,033,376)

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27. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Group's future commitments. Following are the contractual maturities at the end of the reporting period of financial liabilities. The amounts are grossed and undiscounted and include estimated financing cost relating to Murabaha payments except for the long-term loans where the borrowing cost totaling to SAR 597,931 paid in January and April 2023 was capitalized as part of the cost of the newly built warehouse of the Group. The amounts are grossed and undiscounted and include estimated financing cost relating to Murabaha payments.

	30 June 2023			
	<i><u>Carrying amount</u></i>	<i><u>Less than 1 year</u></i>	<i><u>1 year to 5 years</u></i>	<i><u>More than 5 years</u></i>
Liabilities				
Long term-loans	12,675,872	6,906,982	6,557,002	-
Short term loans	60,427,751	61,677,937	-	-
Trade payables	35,752,004	35,752,004	-	-
Accruals and other current liability	13,880,890	13,880,890	-	-
TOTAL	122,736,517	118,217,813	6,557,002	-
	31 December 2022			
	<i><u>Carrying Amount</u></i>	<i><u>Less than 1 year</u></i>	<i><u>1 year to 5 years</u></i>	<i><u>More than 5 years</u></i>
Liabilities				
Long term-loans	15,844,840	7,078,747	9,965,342	-
Short term loans	69,130,087	70,936,185	-	-
Trade payables	37,954,257	37,954,257	-	-
Accruals and other current liabilities	11,316,824	11,316,824	-	-
TOTAL	134,346,008	127,386,013	9,965,342	-

iii) Market risk

Market risk is the risk that changes in the market prices – such as foreign exchange rates and commission rates– will affect the Group's income or the value of its holdings of financial instruments.

iv) Currency risk

This is a risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that's not the Group's functional currency. The Group has transactions denominated in Euros, U.S. dollars, Great Britain Pounds, United Arab Emirates Dirhams. Management monitors the fluctuations in currency exchange rates, and the effect of the currency fluctuation has been accounted for in the condensed consolidated interim financial statements.

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27. FINANCIAL INSTRUMENTS FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

iv) Currency risk (continued)

This is a risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that's not the Group's functional currency. The Group has transactions denominated in Euros, U.S. dollars, Great Britain Pounds, Swiss Francs, United Arab Emirates Dirhams. Management monitors the fluctuations in currency exchange rates, and the effect of the currency fluctuation has been accounted for in the condensed consolidated interim financial statements.

At the end of the year, the Group had the following significant net currency exposures in foreign currencies. Presented below are the monetary assets and liabilities, net in foreign currencies:

<i>Foreign currency exposures</i>	30 June <u>2023</u>	31 December <u>2022</u>
United States Dollar	1,878,806	331,396
Great Britain Pound	(88,516)	(267,980)
Euro	(170,624)	(836,237)
UAE Dirham (AED)	(776,048)	(1,056,074)

Given the fact that the Saudi Riyal is pegged to the US Dollar and the historic performance of the US Dollar against the other currencies listed above, coupled with the values in each respective foreign currency, the Group does not have significant exposure to fluctuations in foreign currencies.

28. SEGMENT

The Board of Directors (BOD), which has been identified as the Chief Operating Decision Maker (CODM), monitors the operating results of its reportable segments separately to make decisions about resource allocation and performance assessment. Transactions between the operating segments are on terms approved by the management.

The Group has three (3) operating segments: Private, Public and Export. The Group's CODM evaluates the segments' revenue on a regular basis in deciding how to allocate resources among the segments and in assessing segment performance. The CODM evaluates the performance of the Group's segments based on revenue. The Group uses revenue as its principal measure of segment performance as it enhances the Group's ability to compare past financial performance with current performance and analyze underlying business performance and trends.

Performance is measured by the CODM based on revenue as reported in the management accounts. Management believes that this measure is the most relevant in evaluating the Group. As such, expenses, assets and liabilities related to segments are neither included in the internal management reports nor provided regularly to the management.

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28. SEGMENT (CONTINUED)

The following table represents the segregation of revenue by type:

	For the three-month period ended		For the six-month period ended	
	30 June 2023	30 June 2022	30 June 2023	30 June 2022
<i>Revenue from:</i>				
Private customers	67,459,778	63,546,154	103,741,363	100,251,490
Public & related customers*	18,471,271	15,917,998	33,863,317	26,383,382
Export customers	7,361,024	3,761,646	10,914,342	6,255,484
	<u>93,292,073</u>	<u>83,225,798</u>	<u>148,519,022</u>	<u>132,890,356</u>

* Public and related customers revenue include revenue under Wasfaty Program.

29. COMMITMENTS AND CONTINGENCIES

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Letters of credit (30.1)	29,152,690	36,063,782
Letters of guarantees (30.2)	11,714,479	3,002,770
	<u>40,867,169</u>	<u>39,066,552</u>

29.1 The letter of credits are contractual commitments by the Group's bank to pay once the export suppliers ship the goods and presents the required documentation to the exporter's bank as proof. The amount shown above is the total letter of credits issued and outstanding from the Group's facilities with banks.

29.2 The letter of guarantees are the commitments or performance bond of the Group attached to its obligations to the Government deliveries to ensure compliance with the terms and conditions of its government obligations. The amount shown above is the total letter of guarantees issued and outstanding from the Group's bank facilities.

30. EARNING PER SHARE (EPS)

Basic and diluted earnings per share are based on the net profit for the period ended 30 June 2023 and 30 June 2022 divided by weighted average number of shares.

	For the three-month period ended		For the six-month period ended	
	30 June 2023	30 June 2022	30 June 2023	30 June 2022
Profit for the period	18,044,241	20,242,350	17,547,760	17,676,863
Weighted average number of shares outstanding during the period	20,000,000	20,000,000	20,000,000	20,000,000
Basic and diluted earnings per share	<u>0.90</u>	<u>1.01</u>	<u>0.88</u>	<u>0.88</u>

The face value of existing shares was changed on 21 February 2022 from SAR 750 per share to SAR 10 per share and the Company increased the number of shares by 14,000,000 on 21 February 2022 out of retained earnings.

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31. EVENTS AFTER THE REPORTING DATE

There have been no significant subsequent events since the balance sheet date that would have a material impact on these condensed consolidated interim financial statements.

32. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved by the Board of Directors for issuance on 20 Muharram 1445H corresponding to 7 August 2023.

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31. EVENTS AFTER THE REPORTING DATE

There have been no significant subsequent events since the balance sheet date that would have a material impact on these condensed consolidated interim financial statements.

32. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved by the Board of Directors for issuance on 20 Muharram 1445H corresponding to 7 August 2023.

The image features a blue-tinted photograph of a pharmaceutical manufacturing plant. In the foreground, a worker in a white lab coat and hairnet is operating a large piece of machinery. The background shows a complex industrial environment with various pipes, tanks, and equipment. A circular graphic element, consisting of a dark blue outer ring and a lighter blue inner shape, frames the central text. The text "Avalon Pharma" is displayed in a white, sans-serif font, with a white circular logo to its left. The logo is a stylized diamond shape with a white outline and a white center.

 **Avalon** Pharma