Mouwasat Medical Services Company
(A Saudi Joint Stock Company) and Its Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

Mouwasat Medical Services Company
(A Saudi Joint Stock Company) and its Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

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INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF MOUWASAT MEDICAL SERVICES COMPANY (A SAUDI JOINT STOCK COMPANY)

Opinion

We have audited the consolidated financial statements of Mouwasat Medical Services Company, A Saudi Joint Stock Company ("the Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with 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 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. For each key audit matter below, our description of how our audit addressed the matter is provided in that context.

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

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INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF MOUWASAT MEDICAL SERVICES COMPANY (A SAUDI JOINT STOCK COMPANY) (continued)

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the key audit matter
Transition to IFRS As a result of the regulatory requirement in the Kingdom of Saudi Arabia, effective 1 January 2017, the Group is required to prepare the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organisation for Certified Accountants ("IFRS as endorsed in KSA"). For all periods up to and including the year ended 31 December 2016, the Group prepared and published its audited consolidated financial statements in accordance with Generally Accepted Accounting Principles (GAAP) issued by SOCPA in KSA (SOCPA GAAP). The consolidated financial statements for the year ended 31 December 2017 are the Group's first consolidated financial statements in accordance with IFRS as endorsed in KSA. Accordingly, the Group has applied IFRS as endorsed in KSA for preparation of its consolidated financial statements for the year beginning 1 January 2017, as well as for presenting the relevant comparative period data. In compliance with requirements of IFRS 1 as endorsed in KSA, the Group's opening consolidated statement of financial position was prepared as at 1 January 2016 after incorporating required adjustments to reflect the transition to IFRS as endorsed in KSA from the previous SOCPA GAAP. The Group has assessed the impact and significant adjustments are made on transitioning from SOCPA GAAP to IFRS as endorsed in KSA in the Group consolidated financial statements as at 1 January 2016 and 31 December 2016. We considered this as a key audit matter since the first time adoption of IFRS has significant impact on the consolidated financial statements from the recognition, measurement and disclosure perspective. Refer to notes 5 to the consolidated financial statements for the details of transition and reconciliation adjustments between SOCPA GAAP and IFRS as endorsed in KSA.	We performed the following procedures in respect of the transition to IFRS as endorsed in KSA: • Assessed the appropriateness of the implementation of IFRS as endorsed in KSA in accordance with the provisions of IFRS 1. • Assessed the appropriateness of the accounting policies adopted. • Evaluated the position papers on technical matters, detailed implementation plans (DIPs) and GAAP differences identified by the Group's Management. • Tested the sample of adjustments (including calculation and recording) made to various balances and transactions to bring them in line with IFRS as endorsed in KSA. • Assessed the appropriateness of disclosures made in relation to transition impact from SOCPA GAAP to IFRS as endorsed in KSA. • Assessed the appropriateness of exceptions to retrospective application of other IFRSs as endorsed in KSA and optional exemptions availed by the Group from full retrospective application of certain IFRSs as endorsed in KSA, in preparing the consolidated financial statements.

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INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF MOUWASAT MEDICAL SERVICES COMPANY (A SAUDI JOINT STOCK COMPANY) (continued)

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the key audit matter
Revenue Recognition - Potential estimated claims Revenue is stated net of potential estimated claims considered likely to be rejected by the customers. The Group estimates these claim rejections based on historical trends, its experience in dealing with customers and the current economic environment. A small change in the Group's estimate of the rejection rate could have a material impact on the consolidated statement of profit or loss and the consolidated statement of financial position. We considered this as a key audit matter since the estimation of the potential claims requires significant judgement in determining the amounts.	We performed the following procedures in respect of revenue recognition: • Assessing the Group's forecasting of rejection rates through a comparison of historical actual claims settled to the original gross claims on a sample basis. Such past experience gives a proxy rejection rate to be applied to current revenues enabling a comparison with the revenue recognised in the consolidated statement of profit or loss. We use our understanding of current customers practice and our review of historical trends in claim rejections to assess the appropriateness of using prior experience as a basis for forecasting; • Obtaining reconciliations of customers claims agreed between the Group and its various customers and assessing whether the latest positions were used by the Group in forming the rejection rate estimate; • Testing the accuracy and completeness of underlying data to assess whether there was appropriate capture of gross revenue. We tested IT system based controls and processes over the completeness of the daily transfer of data from the Group's billing system where patient information is stored to the Group's accounting system where the general ledger is maintained; • Considering the adequacy of the Group's disclosures in respect of the degree in estimation involved in the recognition of revenue and impairment of accounts receivable.

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF MOUWASAT MEDICAL SERVICES COMPANY (A SAUDI JOINT STOCK COMPANY) (continued)

Other information included in The Group's 2017 Annual Report

Other information consists of the information included in the Group's 2017 annual report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information in its annual report. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 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. If, based on the work we have performed, we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance. We have nothing to report in this regard.

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 International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Regulations for Companies and Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF MOUWASAT MEDICAL SERVICES COMPANY (A SAUDI JOINT STOCK COMPANY) (continued)

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF MOUWASAT MEDICAL SERVICES COMPANY (A SAUDI JOINT STOCK COMPANY) (continued)

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

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

for Ernst & Young

Waleed G.Tawfiq
Certified Public Accountant
Registration No. 437

24 Jumada II 1439 H
12 March 2018
Alkhobar

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	2017 SR	2016 SR
REVENUE			
Operating revenue, net		**1,289,587,690**	1,044,388,564
Sales		**217,550,186**	198,832,871
		1,507,137,876	1,243,221,435
DIRECT COSTS			
Cost of operations	6	**(640,736,080)**	(521,701,859)
Cost of sales		**(154,234,479)**	(145,067,377)
		(794,970,559)	(666,769,236)
GROSS PROFIT		**712,167,317**	576,452,199
EXPENSES			
Selling and distribution	7	**(151,174,000)**	(141,345,585)
General and administration	8	**(189,467,013)**	(147,044,993)
		(340,641,013)	(288,390,578)
OPERATING PROFIT		**371,526,304**	288,061,621
Share in results of an associate	15	**4,118,144**	3,038,893
Other income, net	9	**8,795,352**	12,415,726
Finance costs	10	**(4,892,433)**	(6,536,746)
PROFIT BEFORE ZAKAT		**379,547,367**	296,979,494
Zakat	11	**(23,325,552)**	(21,823,357)
PROFIT FOR THE YEAR		**356,221,815**	275,156,137
PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
- Shareholders of the parent company		**336,733,241**	257,182,921
- Non-controlling interest		**19,488,574**	17,973,216
		356,221,815	275,156,137
EARNINGS PER SHARE			
Basic and diluted earnings per share attributable to the shareholders of the parent company	30	**6.73**	5.14

Managing Director	Authorized Board Representative	Chief Finance Officer
Mohammed Al Saleem	Mohammed Al Saleem	Yusuf Sulaiman

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	*2017* *SR*	*2016* *SR*
PROFIT FOR THE YEAR		**356,221,815**	275,156,137
OTHER COMPREHENSIVE INCOME			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on employees' end-of-service benefits	26	**1,738,935**	(3,798,892)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**1,738,935**	(3,798,892)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**357,960,750**	271,357,245
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
- Shareholders of the parent company		**338,621,316**	253,871,100
- Non-controlling interest	24	**19,339,434**	17,486,145
		357,960,750	271,357,245

Managing Director	**Authorized Board Representative**	**Chief Finance Officer**
Mohammed Al Saleem	**Mohammed Al Saleem**	**Yusuf Sulaiman**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 SR	2016 (Note 5) SR	As at 1 January 2016 (Note 5) SR
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	12	**1,633,978,036**	1,360,658,878	1,195,334,583
Goodwill	13	**16,371,000**	16,371,000	16,371,000
Intangible assets	14	**12,646,681**	9,860,919	5,246,889
Investment in an associate	15	**12,861,747**	11,782,496	8,743,603
Advances to contractors	16	**29,376,673**	70,859,039	23,308,370
TOTAL NON-CURRENT ASSETS		**1,705,234,137**	1,469,532,332	1,249,004,445
CURRENT ASSETS				
Inventories	17	**121,797,910**	124,342,199	107,529,613
Accounts receivable	18	**348,727,621**	307,815,128	236,115,782
Advances, prepayments and other receivables	19	**61,848,837**	42,357,426	43,779,670
Term deposit	20	**40,000,000**	30,000,000	150,000,000
Cash and cash equivalent	21	**201,792,146**	124,902,512	81,002,809
TOTAL CURRENT ASSETS		**774,166,514**	629,417,265	618,427,874
TOTAL ASSETS		**2,479,400,651**	2,098,949,597	1,867,432,319
EQUITY AND LIABILITIES				
EQUITY				
Share capital	22	**500,000,000**	500,000,000	500,000,000
Statutory reserve		**203,705,887**	170,032,563	144,444,240
Retained earnings		**788,059,447**	609,999,530	478,404,932
Other reserve		**(1,423,746)**	(3,311,821)	-
EQUITY ATTRIBUTABLE TO THE SHARE-HOLDERS OF THE PARENT COMPANY		**1,490,341,588**	1,276,720,272	1,122,849,172
Non-controlling interests	24	**82,186,211**	77,546,777	69,860,632
TOTAL EQUITY		**1,572,527,799**	1,354,267,049	1,192,709,804
NON-CURRENT LIABILITIES				
Term loans	25	**461,086,157**	322,711,970	326,231,195
Employees' end-of-service benefits	26	**67,466,862**	65,670,952	58,459,692
TOTAL NON-CURRENT LIABILITIES		**528,553,019**	388,382,922	384,690,887
CURRENT LIABILITIES				
Trade payables	27	**117,249,852**	92,447,073	78,397,426
Accruals and other payables	28	**122,075,851**	91,631,236	68,341,757
Short term loans	29	-	1,057,500	-
Current portion of term loans	25	**102,705,574**	142,256,059	120,881,091
Zakat provision	11	**36,288,556**	28,907,758	22,411,354
TOTAL CURRENT LIABILITIES		**378,319,833**	356,299,626	290,031,628
TOTAL LIABILITIES		**906,872,852**	744,682,548	674,722,515
TOTAL EQUITY AND LIABILITIES		**2,479,400,651**	2,098,949,597	1,867,432,319

Managing Director — Mohammed Al Saleem
Authorized Board Representative — Mohammed Al Saleem
Chief Finance Officer — Yusuf Sulaiman

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Attributable to the shareholders of the parent company						
	Share capital	*Statutory reserve*	*Retained earnings*	*Other reserve*	*Equity attributable to the shareholders of the parent company*	*Non-controlling interest*	*Total equity*
	SR	*SR*	*SR*		*SR*	*SR*	*SR*
As at 1 January 2017	500,000,000	170,032,563	609,999,530	(3,311,821)	1,276,720,272	77,546,777	1,354,267,049
Profit for the year	-	-	336,733,241	-	336,733,241	19,488,574	356,221,815
Other comprehensive income	-	-	-	1,888,075	1,888,075	(149,140)	1,738,935
Total comprehensive income	-	-	336,733,241	1,888,075	338,621,316	19,339,434	357,960,750
Transfer to statutory reserve	-	33,673,324	(33,673,324)	-	-	-	-
Dividends (note 23)	-	-	(125,000,000)	-	(125,000,000)	(14,700,000)	(139,700,000)
At 31 December 2017	**500,000,000**	**203,705,887**	**788,059,447**	**(1,423,746)**	**1,490,341,588**	**82,186,211**	**1,572,527,799**
As at 1 January 2016	500,000,000	144,444,240	478,404,932	-	1,122,849,172	69,860,632	1,192,709,804
Profit for the year	-	-	257,182,921	-	257,182,921	17,973,216	275,156,137
Other comprehensive loss	-	-	-	(3,311,821)	(3,311,821)	(487,071)	(3,798,892)
Total comprehensive income	-	-	257,182,921	(3,311,821)	253,871,100	17,486,145	271,357,245
Transfer to statutory reserve	-	25,588,323	(25,588,323)	-	-	-	-
Dividends (note 23)	-	-	(100,000,000)	-	(100,000,000)	(9,800,000)	(109,800,000)
At 31 December 2016	500,000,000	170,032,563	609,999,530	(3,311,821)	1,276,720,272	77,546,777	1,354,267,049

Managing Director
Mohammed Al Saleem

Authorized Board Representative
Mohammed Al Saleem

Chief Finance Officer
Yusuf Sulaiman

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

Mouwasat Medical Services Company
(A Saudi Joint Stock Company) and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 SR	2016 SR
OPERATING ACTIVITIES		
Profit before zakat	379,547,367	296,979,494
Adjustments to reconcile profit before zakat to net cashflows:		
Depreciation	89,276,297	74,578,338
Amortisation of intangible assets	2,284,127	1,199,696
Share in results of an associate	(4,118,144)	(3,038,893)
Employees' end-of-service benefits	18,332,647	15,961,174
Finance costs	4,892,433	6,536,746
Gains on disposal of property and equipment	(410,226)	(1,619,238)
	489,804,501	390,597,317
Working capital adjustments:		
Accounts receivable	(40,912,493)	(71,699,346)
Advances, prepayments and other receivables	(19,491,411)	1,422,244
Inventories	2,544,289	(16,812,586)
Trade payables	24,802,779	11,274,616
Accruals and other payables	30,444,615	26,064,510
Cash from operations	487,192,280	340,846,755
Zakat paid	(15,944,754)	(15,326,953)
Employees' end-of-service benefits paid	(14,797,802)	(12,548,806)
Finance costs paid	(4,892,433)	(6,536,746)
Net cash from operating activities	451,557,291	306,434,250
INVESTING ACTIVITIES		
Term deposits	(10,000,000)	120,000,000
Purchase of property and equipment	(294,975,337)	(235,326,051)
Proceeds from disposal of property and equipment	660,204	3,580,211
Dividends received from an associate	3,038,893	-
Additions to intangible assets	(5,069,889)	(5,813,726)
Advances to contractors	(26,387,730)	(54,088,224)
Net cash used in investing activities	(332,733,859)	(171,647,790)
FINANCING ACTIVITIES		
Proceeds from short term borrowings	-	1,410,000
Repayments of short term borrowings	(1,057,500)	(352,500)
Proceeds from term loans	245,701,584	145,875,438
Repayments of term loans	(146,877,882)	(128,019,695)
Dividends paid	(125,000,000)	(100,000,000)
Dividend paid to non-controlling interests	(14,700,000)	(9,800,000)
Net cash used in financing activities	(41,933,798)	(90,886,757)
INCREASE IN CASH AND CASH EQUIVALENTS	76,889,634	43,899,703
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	124,902,512	81,002,809
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	201,792,146	124,902,512
NON-CASH TRANSACTIONS:		
Transfer from advances to contractors to property and equipment (Note 16)	67,870,096	6,537,555
Remeasurement losses/ (gains) on employees' end-of-service benefits (Note 26)	(1,738,935)	(3,798,892)

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

Managing Director	Authorized Board Representative	Chief Finance Officer
Mohammed Al Saleem	Mohammed Al Saleem	Yusuf Sulaiman

1 CORPORATE INFORMATION

Mouwasat Medical Services Company ("the Company") is registered in Saudi Arabia under Commercial Registration number 2050032029 dated 12 Ramadan 1417H (corresponding to 21 January 1997). The company was converted into a Saudi Joint Stock Company in accordance with Ministerial Resolution No. 1880 dated 4 Dhu-al-Hijja 1426H (corresponding to 4 January 2006).

The Company through its multiple branches listed below is engaged in the acquisition, management, operation and maintenance of hospitals, medical centers, drug stores, pharmacies and wholesale of medical equipment and drugs.

Branch Commercial registration number	Date	Location
2050086573	27/11/1433	Dammam
2055004626	09/03/1421	Jubail
4650029967	06/05/1421	Madina
1010295838	09/11/1431	Riyadh
2250111494	20/04/1438	Dammam
2050046891	18/09/1425	Dammam
2055006727	19/09/1425	Jubail
4650030759	11/11/1421	Madina
2051032510	27/03/1427	Khobar
4650083001	18/01/1438	Madina
2050111780	25/05/1438	Dammam
2051064380	12/09/1438	Khobar

The consolidated financial statements include the activities of the Company and its following subsidiaries (collectively referred to as "the Group"):

Name of the entity	Country of incorporation	Percentage of ownership	Activities
Eastern Medical Services Company Limited	Saudi Arabia	51%	Medical services
Specialised Medical Clinic Company Limited	Saudi Arabia	95%	Medical services

Eastern Medical Services Company Limited is a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration number 2051023824 dated 10 Ramadan 1420 H (corresponding to 18 December 1999). The company is engaged in construction and operation of hospitals, dispensaries and special clinics.

Specialized Medical Clinic Company Limited is a limited liability company registered in Saudi Arabia under commercial registration number 2051032296 dated 11 Safar 1427 H (corresponding to 11 March 2006). The company is engaged in construction, management and operating of the hospital clinics complex in accordance with the preliminary approval of the Ministry of Health number 038-105-023-033-10001 dated 7 Rabi' I 1433H (corresponding to 30 January 2012).

The consolidated financial statements of the Group as at 31 December 2017 were authorised for issue in accordance with the Board of Directors resolution on 24 Jumada II 1439 H (corresponding to 12 March 2018).

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

Effective 1 January 2017, all entities listed in Saudi Stock Exchange are required to prepare their financial statements in accordance with the International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia ("KSA') and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRSs as endorsed in KSA"). These Consolidated Financial Statements have been prepared in accordance with the IFRSs as endorsed in KSA" and represent the Group's first annual financial statements prepared in accordance with IFRSs as endorsed in KSA. The preparation of these consolidated financial statements resulted in changes to the significant accounting policies as compared to those presented in the consolidated financial statements of the Group for the year ended 31 December 2016, which were prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia ("Saudi GAAP").

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)
IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") endorsed in KSA requires that an entity's accounting policies used in its opening statement of financial position and throughout all periods presented in its first IFRS financial statements comply with IFRSs as endorsed in KSA effective at the end of its first IFRS reporting period. Accordingly, the IFRSs endorsed in KSA issued and effective as at 1 January 2017 have been applied in preparing the consolidated financial statements as at and for the year ended 31 December 2017, the comparative information presented as at and for the year ended 31 December 2016, and in preparation of the opening consolidated IFRS Statement of Financial Position as at 1 January 2016. The impacts of the transition to IFRSs as endorsed in KSA for the comparative information are presented in Note 5.

These consolidated financial statements are prepared using historical cost convention using the accrual basis of accounting. For employees' end-of-service benefits, actuarial present value calculation is used. These consolidated financial statements are presented in Saudi Riyals ("SR") which is also the functional currency of the Group.

Basis of consolidation
These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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

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

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

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of *IAS 39 Financial Instruments: Recognition and Measurement*, is measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss in accordance with IAS 39. Other contingent consideration that is not within the scope of IAS 39 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

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

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

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

Current versus non-current classification
The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

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

All other assets are classified as non-current.

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
  Or
- 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

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

Revenue recognition

Operating revenue
Revenue is recognised when services are rendered to customers, net of discounts. Net patient services revenue is recognised at the estimated net realisable amounts from the third party payers (insurance companies) and others for the services rendered, net of estimated retroactive revenue adjustments (rejections) when the related services are rendered. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as actual adjustments become known.

Sales
Sales represent the invoiced value of medicines and drugs supplied by the Group and are recognised, net of discount, when the significant risks and rewards of ownership of those goods have passed to the buyer and the amount of revenue can be measured reliably; normally on delivery to the customer/ patient.

Finance income
For all financial instruments measured at amortised cost and commission income on such financial instruments is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Commission income is included in finance income in the consolidated statement of profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenses
Expenses are recorded when incurred based on the accrual basis of accounting. Selling and distribution expenses are those that specifically relate to marketing personnel, advertisements, promotions as well as allowance for doubtful debts. All other expenses other than financial charges are allocated on a consistent basis to direct costs and general and administration expenses in accordance with allocation factors determined as appropriate by the Group.

Zakat
Zakat is provided for the Company and its subsidiaries separately in accordance with Saudi Arabian fiscal regulations. The provision is charged to the consolidated statement of profit or loss.

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

Transactions and balances
Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

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

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

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

Buildings	33 years
Building system and improvement	3 to 10 years
Medical equipment and tools	4 to 10 years
Furniture and fixture	3 to 10 years
Motor vehicles	4 years

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Leases
The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Borrowing costs

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

Intangible assets

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

The useful lives of intangible assets are assessed as either finite or indefinite.

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

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss when the asset is derecognised.

Intangible assets represent the software license and operating license of certain hospitals. They are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives, ranging between 3 to 10 years. Useful lives are reviewed at each reporting date.

Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investment in an associate is accounted for using the equity method.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in an associate (continued)
Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of the investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity.

Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of profit or loss outside operating profit.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share of profit of an associate' in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of profit or loss.

Financial instruments – initial recognition and subsequent measurement
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets
Initial recognition and measurement
Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss and loans and receivables as appropriate. All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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

Subsequent measurement
The subsequent measurement of financial assets depends on their classification, as described below:

Loans and receivables
This category is the most relevant to the Group. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The losses arising from impairment are recognised in the consolidated statement of profit or loss in finance charges for loans and in other operating expenses for receivables.

This category generally applies to accounts receivable and employees' loans.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

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

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

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

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

Impairment of financial assets
The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost
For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated statement of profit or loss. Finance income (recorded as finance income in the consolidated statement of profit or loss) continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition, subsequent measurement (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables and other financial liabilities measured at amortised cost using EIR method, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Term loans

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

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

This category generally applies to terms loans.

Derecognition

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

Offsetting of financial instruments

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition and calculated on purchase cost on a weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents

Cash and cash equivalents consists of bank balances, cash on hand and short term deposits which have a maturity of three months or less when purchased.

Impairment of non-financial assets

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years . A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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

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

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

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

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Statutory reserve
In accordance with the Saudi Arabian Regulations for Companies, 10% of the profit for the year is required to be transferred to the legal reserve until the balance in the reserve equals 30% of the capital. The Ordinary General Assembly may decide to stop this transfer when the mentioned reserve reaches 30% of the paid capital. The Company continued for such transfer as the ordinary general assembly has not decided to stop the transfer as of the consolidated financial statements date. This reserve is not normally available for distribution except in circumstances specified in the Saudi Arabian Companies Regulations.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end-of-service benefits
The Company operates a non-funded employee end-of-service benefit plan, which is classified as defined benefit obligation under IAS 19 'Employee Benefits'. A defined benefit plan is a plan which is not a defined contribution plan. The liability recognised in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using market yields at the end of the reporting period of high quality corporate bonds that have terms to maturity approximating to the estimated term of the post employment benefit obligations. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are recognised in equity through the other comprehensive income in the period in which they arise.

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty, and critical judgments in applying accounting policies (that have the most significant effect on the amount recognised in the consolidated financial statements) includes:

Impairment of trade receivables
An estimate of the collectible amount of trade receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due.

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

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or Cash Generating Unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing off the asset. The value in use calculation is based on a Discounted Cash Flow ("DCF") model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future net cash-inflows and the growth rate used for extrapolation purposes.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 Financial Instruments

"IFRS 9 - Financial Instruments" ("IFRS 9"), addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard is effective from 1 January2018 and allows early adoption.

The Group will adopt the new standard on the effective date. At this stage, the Group is finalising its assessment of the impact of the new standard on the Group's financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 will replace "IAS 18 – Revenue" which covers revenue arising from the sale of goods and the rendering of services and "IAS 11 - Construction Contracts" which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first periods within annual reporting periods beginning on or after 1 January 2018, and allows early adoption.

The Group will adopt the new standard on the effective date. At this stage, the Group is finalising its assessment of the impact of the new standard on the Group's financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

IAS 7 Disclosure Initiative - Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

IFRS 16 Leases

The IASB has issued a new standard for the recognition of leases. This standard will replace:

- IAS 17 – 'Leases'
- IFRIC 4 – 'Whether an arrangement contains a lease'
- SIC 15 – 'Operating leases – Incentives'
- SIC-27 – 'Evaluating the substance of transactions involving the legal form of a lease'

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 16 Leases (continued)

Under IAS 17, lessees are required to make a distinction between a finance lease (on consolidated statement of financial position) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for all lease contracts apart from an optional exemption for certain short-term leases.

In addition, under the new lease standard, 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.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019, early application is permitted. The Group will adopt the new standard on the effective date. At this stage, the Group is finalising its assessment of the impact of the new standard on the Group's financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance considerations, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

The IFRIC is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. First-time adopters of IFRS are also permitted to apply the interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRS. The Group will adopt the new standard on the effective date, and is finalising its detailed assessment of the impact on the Group's financial statements.

IAS 28 Investments in Associates and Joint Ventures

Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice. The amendments clarifies that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact.

5 FIRST-TIME ADOPTION OF IFRS

For all the periods and up to the year ended 31 December 2016, the Group prepared its consolidated financial statements in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia ("Saudi GAAP"). Effective 1 January 2017, all entities listed in Saudi Stock Exchange are required to prepare their financial statements in accordance with the IFRSs as endorsed in KSA.

IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") endorsed in KSA requires that an entity's accounting policies used in its opening statement of financial position and throughout all periods presented in its first IFRS financial statements comply with IFRSs as endorsed in KSA effective at the end of its first IFRS reporting period. Accordingly, the IFRSs endorsed in KSA issued and effective as at 1 January 2017 have been applied in preparing the consolidated financial statements as at and for the year ended 31 December 2017, the comparative information presented as at and for the year ended 31 December 2016, and in preparation of the opening consolidated IFRS Statement of Financial Position as at 1 January 2016.

IFRS 1 endorsed in KSA allows first-time adopters certain exemptions from retrospective application of certain requirements under IFRSs as endorsed in KSA. However, the Group has applied the following exemptions.

Exemptions applied:
IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Group has applied the following exemptions:

i IFRS 3 Business Combinations has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures that occurred before 1 January 2016. Use of this exemption means that the SOCPA carrying amounts of assets and liabilities, that are required to be recognised under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. The Group did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements.

ii IFRS 1 also requires that the SOCPA carrying amount of goodwill must be used in the opening IFRS statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with IFRS 1, the Group has tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at 1 January 2016.

iii The Group has applied the transitional provisions in IAS 23 Borrowing Costs and capitalises borrowing costs relating to all qualifying assets after the date of transition. Similarly, the Group has not restated for borrowing costs capitalised under Saudi GAAP on qualifying assets prior to the date of transition to IFRS.

Exceptions applied:
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance has not been applied on government loans existing at the date of transition to IFRSs and the corresponding benefit of the government loan at a below-market rate of interest as a government grant has not been recognised. Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with IFRS requirements, it shall use its previous GAAP carrying amount of the loan at the date of transition to IFRSs as the carrying amount of the loan in the opening IFRS statement of financial position.

Estimates:
The estimates as at 1 January 2016 and 31 December 2016 are consistent with those made for the same dates in accordance with Saudi GAAP (after adjustments to reflect any differences in accounting policies) apart from the following items where application of SOCPA did not require estimation:

The impacts of the transition to IFRSs as endorsed in KSA for the comparative information are outlined in the following tables and explanatory notes.

5 FIRST-TIME ADOPTION OF IFRS (continued)

5.1 Group's reconciliation for statement of financial position as at 1 January 2016 (date of transition to IFRS)

	Notes	*Saudi GAAP* SR	**Remeasurement/ reclassification** SR	*IFRS* SR
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	5A	1,212,212,035	(16,877,452)	1,195,334,583
Goodwill		16,371,000	-	16,371,000
Intangible assets	5E	1,053,382	4,193,507	5,246,889
Investment in an associate		8,743,603	-	8,743,603
Advances to contractors		23,308,370	-	23,308,370
TOTAL NON-CURRENT ASSETS		**1,261,688,390**	**(12,683,945)**	**1,249,004,445**
CURRENT ASSETS				
Inventories		107,529,613	-	107,529,613
Accounts receivable		236,115,782	-	236,115,782
Advances, prepayments and other receivables	5B	35,163,031	8,616,639	43,779,670
Term deposit		150,000,000	-	150,000,000
Cash and cash equivalent		81,002,809	-	81,002,809
TOTAL CURRENT ASSETS		**609,811,235**	**8,616,639**	**618,427,874**
TOTAL ASSETS		**1,871,499,625**	**(4,067,306)**	**1,867,432,319**
EQUITY AND LIABILITIES				
EQUITY				
Share capital		500,000,000	-	500,000,000
Statutory reserve		144,444,240	-	144,444,240
Retained earnings	5.1.1.A	490,202,507	(11,797,575)	478,404,932
EQUITY ATTRIBUTABLE TO THE SHARE HOLDERS OF THE PARENT COMPANY		**1,134,646,747**	**(11,797,575)**	**1,122,849,172**
Non-controlling interests	5.1.1.B	69,740,137	120,495	69,860,632
TOTAL EQUITY		**1,204,386,884**	**(11,677,080)**	**1,192,709,804**
NON-CURRENT LIABILITIES				
Term loans		326,231,195	-	326,231,195
Employees' end-of-service benefits	5C	50,849,918	7,609,774	58,459,692
TOTAL NON-CURRENT LIABILITIES		**377,081,113**	**7,609,774**	**384,690,887**
CURRENT LIABILITIES				
Trade payables		78,397,426	-	78,397,426
Accruals and other payables		68,341,757	-	68,341,757
Current portion of term loans		120,881,091	-	120,881,091
Zakat provision		22,411,354	-	22,411,354
TOTAL CURRENT LIABILITIES		**290,031,628**	**-**	**290,031,628**
TOTAL LIABILITIES		**667,112,741**	**7,609,774**	**674,722,515**
TOTAL EQUITY AND LIABILITIES		**1,871,499,625**	**(4,067,306)**	**1,867,432,319**

5 FIRST-TIME ADOPTION OF IFRS (continued)

5.1 Group's reconciliation for statement of financial position as at 1 January 2016 (date of transition to IFRS) (continued):

5.1.1 Reconciliation of retained earnings and non-controlling interest as at 1 January 2016:

5.1.1.A Following is the analysis of the impact of IFRS re-measurements on retained earnings:

	Notes	*Impact on retained earnings at 1 January 2016 SR*
As per SOCPA (The Saudi GAAP)		**490,202,507**
Adjustments :		
Start-up costs	5A	(12,683,945)
Unbilled revenue	5B	8,250,635
Employees' end-of-service benefits	5C	(7,364,265)
Adjusted balance (IFRS)		**478,404,932**

5.1.1.B Following is the analysis of the impact of IFRS re-measurements on non-controlling interest:

	Notes	*Impact on non-controlling interest at 1 January 2016 SR*
As per SOCPA (The Saudi GAAP)		**69,740,137**
Adjustments :		
Unbilled revenue	5B	366,004
Employees' end-of-service benefits	5C	(245,509)
Adjusted balance (IFRS)		**69,860,632**

5 FIRST-TIME ADOPTION OF IFRS (continued)

5.2 Group's reconciliation for statement of financial position as at 31 December 2016:

	Notes	*Saudi GAAP* *SR*	**Remeasurement/ reclassification** *SR*	*IFRS* *SR*
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	5A	1,381,310,201	(20,651,323)	1,360,658,878
Goodwill		16,371,000	-	16,371,000
Intangible assets	5E	1,497,293	8,363,626	9,860,919
Investment in an associate		11,782,496	-	11,782,496
Advances to contractors		70,859,039	-	70,859,039
TOTAL NON-CURRENT ASSETS		**1,481,820,029**	**(12,287,697)**	**1,469,532,332**
CURRENT ASSETS				
Inventories		124,342,199	-	124,342,199
Accounts receivable		307,815,128	-	307,815,128
Advances, prepayments and other receivables	5B	35,300,018	7,057,408	42,357,426
Term deposit		30,000,000	-	30,000,000
Cash and cash equivalent		124,902,512	-	124,902,512
TOTAL CURRENT ASSETS		**622,359,857**	**7,057,408**	**629,417,265**
TOTAL ASSETS		**2,104,179,886**	**(5,230,289)**	**2,098,949,597**
EQUITY AND LIABILITIES				
EQUITY				
Share capital		500,000,000	-	500,000,000
Statutory reserve		170,032,563	-	170,032,563
Retained earnings	5.2.1.A	619,097,412	(9,097,882)	609,999,530
Other reserve	5.2.1.B	-	(3,311,821)	(3,311,821)
EQUITY ATTRIBUTABLE TO THE SHARE-HOLDERS OF THE PARENT COMPANY		**1,289,129,975**	**(12,409,703)**	**1,276,720,272**
Non-controlling interests	5.2.1.C	77,905,378	(358,601)	77,546,777
TOTAL EQUITY		**1,367,035,353**	**(12,768,304)**	**1,354,267,049**
NON-CURRENT LIABILITIES				
Term loans		322,711,970	-	322,711,970
Employees' end-of-service benefits	5C	58,132,937	7,538,015	65,670,952
TOTAL NON-CURRENT LIABILITIES		**380,844,907**	**7,538,015**	**388,382,922**
CURRENT LIABILITIES				
Trade payables		92,447,073	-	92,447,073
Accruals and other payables		91,631,236	-	91,631,236
Short term loans		1,057,500	-	1,057,500
Current portion of term loans		142,256,059	-	142,256,059
Zakat provision		28,907,758	-	28,907,758
TOTAL CURRENT LIABILITIES		**356,299,626**	**-**	**356,299,626**
TOTAL LIABILITIES		**737,144,533**	**7,538,015**	**744,682,548**
TOTAL EQUITY AND LIABILITIES		**2,104,179,886**	**(5,230,289)**	**2,098,949,597**

5 FIRST-TIME ADOPTION OF IFRS (continued)

5.2 Group's reconciliation for statement of financial position as at 31 December 2016 (continued):

5.2.1 Reconciliation of retained earnings and non-controlling interest as at 31 December 2016:

5.2.1.A Following is the analysis of the impact of IFRS re-measurements on retained earnings:

	Notes	*Impact on retained earnings at 31 December 2016 SR*
As per SOCPA (The Saudi GAAP)		**619,097,412**
Adjustments :		
IFRS adjustments as of Jan 1, 2016	5.1.1.A	(11,797,575)
Start-up costs	5A	396,248
Unbilled revenue	5B	(1,366,323)
Employees' end-of-service benefits	5C	3,669,768
Adjusted balance (IFRS)		**609,999,530**

5.2.1.B Following is the analysis of the impact of IFRS re-measurements on other reserve:

	Notes	*Impact on other reserve at 31 December 2016 SR*
As per SOCPA (The Saudi GAAP)		-
Adjustments :		
Remeasurement loss on employees' end-of-service benefits	5C	(3,311,821)
Adjusted balance (IFRS)		**(3,311,821)**

5.2.1.C Following is the analysis of the impact of IFRS re-measurements on non-controlling interest:

	Notes	*Impact on non-controlling interest at 31 December 2016 SR*
As per SOCPA (The Saudi GAAP)		**77,905,378**
Adjustments :		
IFRS adjustments as of Jan 1, 2016	5.1.1.B	120,495
Unbilled revenue	5B	(192,908)
Employees' end-of-service benefits	5C	(286,188)
Adjusted balance (IFRS)		**77,546,777**

5 FIRST-TIME ADOPTION OF IFRS (continued)

5.3 Group's reconciliation of statement of profit or loss and comprehensive income for the year ended 31 December 2016:

	Notes	*Saudi GAAP* *SR*	**Remeasurement/ reclassification** *SR*	*IFRS* *SR*
REVENUE				
Operating revenue, net	5B	1,045,947,795	(1,559,231)	1,044,388,564
Sales		198,832,871	-	198,832,871
		1,244,780,666	**(1,559,231)**	**1,243,221,435**
DIRECT COSTS				
Cost of operations	5A & 5C	(524,728,316)	3,026,457	(521,701,859)
Cost of sales		(145,067,377)	-	(145,067,377)
		(669,795,693)	**3,026,457**	**(666,769,236)**
GROSS PROFIT		**574,984,973**	**1,467,226**	**576,452,199**
EXPENSES				
Selling and distribution	5A & 5C	(141,732,650)	387,065	(141,345,585)
General and administration	5A, 5C & 5D	(146,498,370)	(546,623)	(147,044,993)
		(288,231,020)	(159,558)	(288,390,578)
OPERATING PROFIT		**286,753,953**	**1,307,668**	**288,061,621**
Share in results of an associate		3,038,893	-	3,038,893
Other income, net		12,415,726	-	12,415,726
Finance costs		(6,536,746)	-	(6,536,746)
PROFIT BEFORE ZAKAT		**295,671,826**	**1,307,668**	**296,979,494**
Zakat		(21,823,357)	-	(21,823,357)
PROFIT FOR THE YEAR		**273,848,469**	**1,307,668**	**275,156,137**
PROFIT FOR THE YEAR ATTRIBUTABLE TO:				
- Shareholders of the parent company		255,883,228	1,299,693	257,182,921
- Non-controlling interest		17,965,241	7,975	17,973,216
		273,848,469	1,307,668	275,156,137
OTHER COMPREHENSIVE INCOME				
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:				
Remeasurement loss on employees' end-of-service benefits	5C	-	(3,798,892)	(3,798,892)
OTHER COMPREHENSIVE LOSS FOR THE YEAR		-	(3,798,892)	(3,798,892)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**273,848,469**	**(2,491,224)**	**271,357,245**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:				
- Shareholders of the parent company		255,883,228	(2,012,128)	253,871,100
- Non-controlling interest		17,965,241	(479,096)	17,486,145
		273,848,469	(2,491,224)	271,357,245

5 FIRST-TIME ADOPTION OF IFRS (continued)

***5A* Property and equipment**

Under IFRS, Entities are not allowed to capitalise pre-operating/ start up costs. These costs should be expensed when they incurred. The Group has previously capitalised these costs which do not meet the definition of cost of an asset as per IFRS. Therefore, the balance is now being derecognised from property and equipment amounting to SR 12.68 million and the impact has been debited to the retained earnings at the transition date.

***5B* Prepayments and others**

As part of the transition to IFRS as endorsed in KSA, the Group revisited the terms and conditions of rendering services to patients which resulted in recognition of accrued income as at 1 January 2016. Therefore, accrued income (classified under prepayments and others) of SAR 8.3 million and SR 7.06 million was recognised as at 1 January 2016 and 31 December 2016, respectively with corresponding credit to retained earnings and consolidated statement of profit or loss. Additionally, operating revenue for the year ended 31 December 2016 was reduced by SR 1,559,231.

***5C* Employees' end-of-service benefits**

Under the Saudi GAAP, the Group was required to recognise the provision for employees' end-of-service benefits for the amounts payable at the statement of financial position date in accordance with the employees' contracts of employment applicable to employees' accumulated periods of service. However under IAS 19, the Company is required to recognise an amount of a liability that equals to the net amount of present value of the defined benefit obligation, deferred actuarial gains and losses, deferred past service costs and the fair value of any plan assets at statement of financial position. Accordingly, the Group has restated employees' end-of-service benefits as at 1 January 2016 and 31 December 2016. The impact of restatement which pertains to 2015 and periods prior to 2015, has been charged to opening retained earnings as at 1 January 2016.

***5D* Board of directors' remuneration**

Under Saudi GAAP, accepted practice was to charge the Directors' remuneration in the statement of changes in shareholders' equity, However under IFRS amounts of Directors' remuneration should be charged to consolidated statement of profit or loss.

***5E* Others**

In addition to above IFRS adoption adjustments, certain items in the consolidated statements of financial position and income have been reclassified to meet the presentation and disclosure requirements in accordance with IFRS as endorsed in KSA, which have not resulted in any additional impact on equity or net income for comparative figures.

6 COST OF OPERATION

	2017 SR	2016 SR
Employees' costs	**322,118,669**	280,460,215
Material consumption	**131,956,656**	97,069,649
Depreciation	**71,421,038**	60,189,914
Drug consumption	**57,355,127**	40,592,679
Repair & maintenance	**15,831,315**	10,951,722
Support services	**15,313,793**	9,365,137
Utilities	**11,014,877**	10,029,349
Amortisation of intangible assets	**1,092,229**	511,103
Others	**14,632,376**	12,532,091
	640,736,080	521,701,859

7 SELLING AND DISTRIBUTION EXPENSES

	2017 SR	2016 SR
Allowance for doubtful debts (note 18)	**91,061,460**	84,282,690
Employees' costs	**46,016,938**	40,498,097
Advertising and sales promotion	**14,095,602**	16,564,798
	151,174,000	141,345,585

8 GENERAL AND ADMINISTRATION EXPENSES

	2017 SR	2016 SR
Employees' costs	**92,033,876**	80,222,065
Depreciation	**17,855,259**	14,388,424
Management bonus	**16,943,566**	11,839,007
Board of directors' remuneration	**2,700,000**	1,400,000
Maintenance and repair	**6,784,849**	4,693,595
Executives' salaries	**6,150,000**	5,358,750
Support services	**5,950,667**	3,482,594
Rent	**2,229,449**	2,274,542
Utilities	**4,720,662**	4,829,328
Amortisation of intangible assets	**1,191,898**	688,593
Others	**32,906,787**	17,868,095
	189,467,013	147,044,993

9 OTHER INCOME, NET

	2017 SR	2016 SR
Rental income	**2,761,051**	2,081,033
Suppliers prompt payment discount	**1,669,594**	1,801,454
Services provided to an associate (note 31)	**450,062**	433,976
Gain on disposal of property and equipment	**410,226**	1,619,238
Others	**3,504,419**	6,480,025
	8,795,352	12,415,726

10 FINANCE COSTS

	2017	*2016*
	SR	*SR*
Interest on:		
-long term borrowings	**4,892,433**	6,521,884
-short term borrowings	**-**	14,862
	4,892,433	6,536,746

11 ZAKAT

Charge for the period

	2017	*2016*
	SR	*SR*
Provision for the year	**23,325,552**	21,823,357
	23,325,552	21,823,357

The provision for the year is based on individual zakat base of the Company and its subsidiaries.

Movement in provision
The movement in zakat provision was as follows:

	2017	*2016*
	SR	*SR*
As at 1 January	**28,907,758**	22,411,354
Charge for the year	**23,325,552**	21,823,357
Paid during the year	**(15,944,754)**	(15,326,953)
At 31 December	**36,288,556**	28,907,758

Status of assessments

Zakat returns of the Company have been agreed with the General Authority of Zakat and Tax ("the GAZT") up to 2012. The zakat assessments for the years from 2013 to 2016 have been filed with the GAZT. However, the assessments have not yet been raised by GAZT.

Zakat has been computed based on the parent Company's understanding and interpretation of the zakat regulations enforced in the Kingdom of Saudi Arabia. The GAZT continues to issue circulars to clarify certain zakat regulations which are usually enforced on all open years. The zakat liability as computed by the Company could be different from zakat as assessed by the GAZT for years for which assessments have not yet been raised by the GAZT.

Eastern Medical Services Company Limited
Zakat assessments have been agreed with the GAZT up to 2012. The zakat assessments for the years from 2013 to 2016 have been filed with the GAZT. However, the assessments have not yet been raised by GAZT.

Specialised Medical Clinic Company Limited
Zakat assessments have been agreed with the General Authority for Zakat and Tax ("the GAZT") up to 2008. The zakat declarations for the years from 2009 to 2012 have been filed with the GAZT. However, the final assessments have not yet been raised by GAZT. The Company has not filed the Zakat declarations for the year 2013 and thereafter.

12 PROPERTY AND EQUIPMENT

	Plots of land SR	*Buildings* SR	*Building system and improvement* SR	*Medical equipment and tools* SR	*Furniture and fixture* SR	*Motor vehicles* SR	*Construction work in progress* SR	***Total*** ***SR***
Cost:								
As at 1 January 2016	283,568,602	528,257,063	218,482,007	413,490,205	83,262,892	28,158,281	135,005,209	1,690,224,259
Additions	-	831,029	8,755,570	53,853,604	11,547,765	5,065,593	161,810,045	241,863,606
Transfers	-	76,975,291	44,738,774	19,736,934	-	2,235,759	(143,686,758)	-
Disposals	-	-	(196,149)	(9,906,218)	(3,078,853)	(2,862,534)	(1,116,274)	(17,160,028)
At 31 December 2016	283,568,602	606,063,383	271,780,202	477,174,525	91,731,804	32,597,099	152,012,222	1,914,927,837
Additions	51,500,000	4,284,660	7,101,854	35,925,399	21,122,693	3,171,290	239,739,537	362,845,433
Transfers	-	19,892,481	8,612,893	-	2,532,920	-	(31,038,294)	-
Disposals	-	-	(60,300)	(3,074,895)	(1,828,207)	(2,406,459)	-	(7,369,861)
At 31 December 2017	**335,068,602**	**630,240,524**	**287,434,649**	**510,025,029**	**113,559,210**	**33,361,930**	**360,713,465**	**2,270,403,409**
Accumulated Depreciation:								
As at 1 January 2016	-	137,200,015	87,232,828	202,664,210	49,386,945	18,405,678	-	494,889,676
Charge for the year	-	16,446,351	13,567,848	33,388,391	6,938,756	4,236,992	-	74,578,338
Disposals	-	-	(171,419)	(9,487,132)	(2,866,948)	(2,673,556)	-	(15,199,055)
At 31 December 2016	-	153,646,366	100,629,257	226,565,469	53,458,753	19,969,114	-	554,268,959
Charge for the year	-	17,322,201	21,350,843	35,696,226	10,496,785	4,410,242	-	89,276,297
Disposals	-	-	(60,294)	(2,961,617)	(1,800,922)	(2,297,050)	-	(7,119,883)
At 31 December 2017	**-**	**170,968,567**	**121,919,806**	**259,300,078**	**62,154,616**	**22,082,306**	**-**	**636,425,373**
Net book amounts:								
At 31 December 2017	**335,068,602**	**459,271,957**	**165,514,843**	**250,724,951**	**51,404,594**	**11,279,624**	**360,713,465**	**1,633,978,036**
At 31 December 2016	283,568,602	452,417,017	171,150,945	250,609,056	38,273,051	12,627,985	152,012,222	1,360,658,878
As at 1 January 2016	283,568,602	391,057,048	131,249,179	210,825,995	33,875,947	9,752,603	135,005,209	1,195,334,583

12 PROPERTY AND EQUIPMENT (continued)

Construction work in progress represents costs incurred to construct new hospitals in Alkhobar city and expanding existing hospitals in Dammam, Madinah and Jubail during 2017. During the year, borrowing costs of SR 9.7 million (31 December 2016: SR 7.5 million, 1 January 2016: SR 2.5 million) were capitalised.

At 31 December 2017 plots of land amounting to SR 56.1 million (31 December 2016: SR 56.1 million, 1 January 2016: SR 43.5 million) are pledged as security against term loans (note 25).

The depreciation charge has been allocated as follows:

	2017	*2016*
	SR	*SR*
Cost of operations (Note 6)	**71,421,038**	60,189,914
General and administration expenses (Note 8)	**17,855,259**	14,388,424
	89,276,297	74,578,338

13 GOODWILL

On 24 July 2006, the Group acquired 51% of the voting shares of Eastern Medical Services Company Limited, an unlisted company registered in the Kingdom of Saudi Arabia ("EMS"). The Group performed its annual impairment testing for the year ended 31 December 2017 compared carrying value to their estimated recoverable amount based on appropriate method.

The recoverable amount of the EMS is also determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the increased demand for services. The pre-tax discount rate applied to the cash flow projections is 15%. The growth rate used to extrapolate the cash flows of the unit beyond the five-year period is 2%. This growth rate of Saudi Arabia is ranging from 1% to 3.5%. As a result of the analysis, there is recoverable amounts of SR 102 million and management did not identify an impairment for this CGU.

Key assumptions used in value in use calculations

The calculation of value in use is most sensitive to the following assumptions:

Gross margins
Discount rates
Growth rates used to extrapolate cash flows beyond the forecast period

Gross margins — Gross margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvements.

Discount rates — Discount rates represent the current market assessment of the risks specific to cash generating unit, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly-available marked data.

Growth rate estimates — Rates are based on published industry research.

14 INTANGIBLE ASSETS

Other intangible assets represent the software licenses and the license of certain hospitals and dispensaries and are amortised over a period of 3-7 years.

	Software licenses	**Operating licenses**	***Total***
	SR	***SR***	***SR***
Cost:			
As at 1 January 2016	8,355,063	2,875,860	11,230,923
Additions	4,808,998	1,004,728	5,813,726
At 31 December 2016	13,164,061	3,880,588	17,044,649
Additions	3,253,169	1,816,720	5,069,889
Written-off	-	(1,775,411)	(1,775,411)
At 31 December 2017	**16,417,230**	**3,921,897**	**20,339,127**
Accumulated amortisation:			
As at 1 January 2016	4,161,556	1,822,478	5,984,034
Charge for the year	638,879	560,817	1,199,696
At 31 December 2016	4,800,435	2,383,295	7,183,730
Charge for the year	1,365,287	918,840	2,284,127
Written-off	-	(1,775,411)	(1,775,411)
At 31 December 2017	**6,165,722**	**1,526,724**	**7,692,446**
Net book amounts:			
At 31 December 2017	**10,251,508**	**2,395,173**	**12,646,681**
At 31 December 2016	8,363,626	1,497,293	9,860,919
As at 1 January 2016	4,193,507	1,053,382	5,246,889

The amortisation of intangible assets has been allocated as follows:

	2017	*2016*
	SR	*SR*
Cost of operations (Note 6)	**1,092,229**	511,103
General and administration expenses (Note 8)	**1,191,898**	688,593
	2,284,127	1,199,696

15 INVESTMENT IN AN ASSOCIATE

The Group has 50% share in Advance Medical Project Company ("AMPC"), a limited liability company registered in the Kingdom of Saudi Arabia. The company is engaged in operating ophthalmology, ears, noses and throats clinics.

The movement in the investment during the year was as follows:

	2017	*2016*
	SR	*SR*
As at 1 January	**11,782,496**	8,743,603
Share in results	**4,118,144**	3,038,893
Dividends	**(3,038,893)**	-
At 31 December	**12,861,747**	11,782,496

The financial information of the associate is not material at the Group level, therefore summarised financial information of the associate has not been presented.

16 ADVANCES TO CONTRACTORS

The movement in advances to contractors was as follows:

	2017	*2016*
	SR	*SR*
As at 1 January	**70,859,039**	23,308,370
Paid during the year	**26,387,730**	54,088,224
Transfer to construction work in progress	**(67,870,096)**	(6,537,555)
At 31 December	**29,376,673**	70,859,039

17 INVENTORIES

	2017	*2016*	*As at 1 January 2016*
	SR	*SR*	*SR*
Pharmaceuticals and cosmetic materials	**59,965,825**	58,399,682	52,342,255
Surgical and consumable tools	**58,291,074**	60,347,597	50,294,321
Spare parts and consumables	**3,541,011**	5,594,920	4,893,037
	121,797,910	124,342,199	107,529,613

18 ACCOUNTS RECEIVABLE

	2017	*2016*	*As at 1 January 2016*
	SR	*SR*	*SR*
Trade receivable, net	**462,107,292**	405,931,834	260,178,061
Less: allowance for doubtful debts	**(116,726,544)**	(122,702,556)	(56,648,307)
Trade receivable, net	**345,380,748**	283,229,278	203,529,754
Receivables from related parties (note 31)	**468,797**	1,177,552	5,388,016
Retentions receivable	**2,878,076**	23,408,298	27,198,012
	348,727,621	307,815,128	236,115,782

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

Movements in the allowance for doubtful debts were as follows:

	2017	*2016*
	SR	*SR*
As at 1 January	**122,702,556**	56,648,307
Provided during the year (note 7)	**91,061,460**	84,282,690
Written off	**(97,037,472)**	(18,228,441)
At 31 December	**116,726,544**	122,702,556

As at 31 December, the ageing analysis of trade receivables is as follows:

			Past due but not impaired		
	Total	**Neither past due nor impaired**	**31-90 days**	**91-180 days**	**above 180 days**
At 31 December 2017	**345,380,748**	**118,539,409**	**82,498,425**	**43,639,424**	**100,703,490**
At 31 December 2016	283,229,278	93,504,470	77,235,931	20,678,440	91,810,437
As at 1 January 2016	203,529,754	73,635,571	60,941,779	24,867,931	44,084,473

18 ACCOUNTS RECEIVABLES (continued)

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables and the vast majority are, therefore, unsecured. Refer to note 35 on credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

19 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	2017	*2016*	*As at 1 January 2016*
	SR	*SR*	*SR*
Prepaid expenses	**20,048,480**	16,948,925	15,267,956
Advances to suppliers	**9,976,964**	12,179,812	13,155,319
Accrued income	**7,511,817**	7,057,408	8,616,639
Others	**24,311,576**	6,171,281	6,739,756
	61,848,837	42,357,426	43,779,670

20 TERM DEPOSIT

Term islamic deposit is placed with a local bank with maturities of more than three months when purchased and earn commission income at an average rate 1.05% to 1.85%.

21 CASH AND CASH EQUIVALENTS

	2017	*2016*	*As at 1 January 2016*
	SR	*SR*	*SR*
Cash in hand	**513,282**	782,975	616,853
Bank balances	**141,278,864**	124,119,537	80,385,956
Short term deposits	**60,000,000**	-	-
	201,792,146	124,902,512	81,002,809

22 SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is divided into 50 million shares (31 December 2016: 50 million shares, as at 1 January 2016: 50 million shares) of SR 10 each.

Subsequent to the consolidated financial statements date on 12 Jumada I 1439 H (corresponding to 29 January 2018), the Board of Directors resolved to increase the share capital to 100 million shares of SR 10 each, by capitalising SR 500,000,000 from retained earnings, which will be subject to the Extraordinary General Assembly approval in there next meeting. The legal formalities relating to increase in share capital have not yet been completed.

23 DIVIDENDS

The board of directors at their meeting held subsequent to consolidated financial statements date on 12 Jumada I 1439 H (corresponding to 29 January 2018) proposed a cash dividend of SR 3 per share amounting to SR 150 million for the year ended 31 December 2017 for approval of the General Assembly Meeting.

31 December 2016: The board of directors at their meeting held on 27 Rabi'II 1438 H (corresponding to 25 January 2017) proposed a cash dividend of SR 2.5 per share amounting to SR 125 million for the year ended 31 December 2016 which was subsequently approved by the shareholders in the General Assembly Meeting held on 27 Rajab 1438 H (corresponding to 24 April 2017).

As at 1 January 2016: The board of directors at their meeting held on 15 Rabi'II 1437H (corresponding to 25 January 2016) proposed a cash dividend of SR 2.0 per share amounting to SR 100 million for the year ended 31 December 2015 which was subsequently approved by the shareholders in the General Assembly Meeting held on 26 Jumada'II 1437H (corresponding to 4 April 2016).

24 NON-CONTROLLING INTERESTS

The movements in non-controlling interests are as follows:

	2017	*2016*
	SR	*SR*
As at 1 January	**77,546,777**	69,860,632
Share in results	**19,339,434**	17,486,145
Net movement	**(14,700,000)**	(9,800,000)
As 31 December	**82,186,211**	77,546,777

Material partly-owned subsidiaries

Financial information of subsidiary that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

Name	Country of incorporation and operation	***31 December 2017***	*31 December 2016*	*As at 1 January 2016*
Eastern Medical Services Company Limited	Saudi Arabia	**49%**	49%	49%

	31 December 2017	*31 December 2016*	*As at 1 January 2016*
	SR	*SR*	*SR*
Accumulated balances of material non-controlling interest:			
Eastern Medical Services Company Limited	**82,089,146**	77,813,999	69,657,994
Profit allocated to material non-controlling interest:			
Eastern Medical Services Company Limited	**19,333,746**	17,476,910	14,309,270

The summarised financial information of the above subsidiary is provided below. This information is based on amounts before inter-company eliminations.

Summarised statement of profit or loss:

	31 December 2017	*31 December 2016*
	SR	*SR*
Revenue	**189,557,410**	172,513,211
Direct costs	**(101,338,211)**	(90,961,412)
General and administrative expenses	**(31,711,516)**	(24,695,895)
Selling and distribution expenses	**(14,307,724)**	(18,743,050)
Other income	**576,333**	438,855
Profit before zakat	**42,776,292**	38,551,709
Zakat	**(3,015,302)**	(1,890,523)
Net income for the year	**39,760,990**	36,661,186
Other comprehensive loss for the year	**(304,367)**	(994,023)
Total comprehensive income for the year	**39,456,623**	35,667,163
Attributable to non-controlling interests	**19,333,745**	17,476,910
Dividends to non-controlling interests	**14,700,000**	9,800,000

24 NON-CONTROLLING INTERESTS (continued)

Material partly-owned subsidiaries (continued)

Summarised statement of financial position:

	31 December 2017	31 December 2016	As at 1 January 2016
	SR	SR	SR
Current assets	**106,932,100**	99,108,714	94,336,831
Non-current assets	**98,249,712**	93,550,225	80,493,441
Current liabilities	**(20,543,029)**	(17,259,163)	(15,258,153)
Non-current liabilities	**(17,109,914)**	(16,595,696)	(17,412,947)
Total Equity	**167,528,869**	158,804,080	142,159,172
Attributable to:			
Shareholder of the parent company	85,439,723	80,990,081	72,501,178
Non-controlling interests	82,089,146	77,813,999	69,657,994

Summarised cash flow information for year ended:

	31 December 2017	31 December 2016
	SR	SR
Operating	**49,082,540**	54,419,976
Investing	**(23,465,705)**	(49,563,111)
Financing	**(31,929,933)**	(21,929,931)
Net decrease in the bank balances and cash	**(6,313,098)**	(17,073,066)

25 TERM LOANS

	Effective interest rate	Maturity	**2017**	2016	As at 1 January 2016
			SR	SR	SR
Current					
Medium term loan (a)	Sibor + 2.00%	31 December 2018	**94,828,701**	139,682,836	118,307,868
Loans from the Ministry of Finance (b)	3%	31 July 2018	**7,876,873**	2,573,223	2,573,223
			102,705,574	142,256,059	120,881,091
Non-current					
Medium term loan (a)	Sibor + 2.00%	30 April 2025	**349,380,689**	203,129,630	205,086,731
Loans from the Ministry of Finance (b)	3%	31 December 2036	**111,705,468**	119,582,340	121,144,464
			461,086,157	322,711,970	326,231,195

a) The Group obtained islamic loans facilities from various commercial banks. These loans are secured by promissory notes and assignment of insurance and contract proceeds. The facilities are subject to commission at SIBOR plus 1.5% to 2%.

b) The Group obtained loans facility of SR 147.3 million from Ministry of finance for expansions and building new hospitals. The loans are secured by a mortgage on the Group's plots of land and are repayable on equal annual installments. These loans do not carry any financial charges.

The Group is required to comply with certain covenant under the loan facility agreements mentioned above.

25 TERM LOANS (continued)

Following are the combined aggregate amounts of future maturities of the term loans as at 31 December 2017:

	SR'000
2018	**102,706**
2019	**76,410**
2020	**92,791**
2021	**93,633**
2022	**90,981**
2023 and onwards	**107,271**
	563,792

26 EMPLOYEES' END-OF-SERVICE BENEFITS

The Group has one defined benefit pension plan (unfunded), which is a final salary plan in Saudi Arabia and require to recognise the provision for employees' end-of-service benefits for the amounts payable at the statement of financial position date in accordance with the employees' contracts of employment applicable to employees' accumulated periods of service. In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its defined benefit obligations at 31 December 2017 in respect of employees' end-of-service benefits payable under relevant local regulations and contractual arrangements. The main actuarial assumptions used to calculate the defined unfunded benefit obligation are as follows:

	31 December 2017	*31 December 2016*	*As at 1 January 2016*
Discount rate	**3.05%**	3.25%	3.50%
Salary increase rate	**3.00%**	3.00%	3.00%

The present values of the defined benefit obligations at 31 December were computed using the actuarial assumptions set out above.

	2017 SR	*2016 SR*
Present value of defined benefit obligation	**69,205,797**	61,872,060
Remeasurement (gains) losses on employees' defined benefits liabilities	**(1,738,935)**	3,798,892
Balance as at 31 December	**67,466,862**	65,670,952

The break up of net benefit costs charged to statement of profit or loss is as follows:

	2017 SR	*2016 SR*
Current service cost	**16,011,000**	13,747,195
Interest cost on benefit obligation	**2,321,647**	2,213,979
Net benefit expense	**18,332,647**	15,961,174

Movement in the present value of employees' end-of-service benefits obligation is as follows:

	2017 SR	*2016 SR*
As at 1 January	**65,670,952**	58,459,692
Current service cost	**18,332,647**	15,961,174
Benefits paid	**(14,797,802)**	(12,548,806)
Remeasurement (gains) losses on employees' defined benefits liabilities	**(1,738,935)**	3,798,892
At 31 December	**67,466,862**	65,670,952

26 EMPLOYEES' END-OF-SERVICE BENEFITS (continued)

A quantitative sensitivity analysis for significant assumption on the defined benefit obligation as at 31 December 2017 is, as shown below:

	2017	*2016*
	SR	*SR*
Future salary increase:		
0.5% increase	**70,782,380**	68,184,641
0.5% decrease	**(64,378,186)**	(63,318,521)
Discount rate:		
0.5% increase	**64,394,025**	62,894,420
0.5% decrease	**(70,797,458)**	(68,672,335)

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

The following payments are expected against the defined benefit liability in future years:

	2017	*2016*
	SR	*SR*
Within the next 12 months (next annual reporting period)	**4,170,930**	3,875,928
Between 2 and 5 years	**33,939,612**	36,043,790
Beyond 5 years	**61,113,062**	56,143,340
Total expected payments	**99,223,604**	96,063,058

The average duration of the defined benefit plan obligation at the end of the reporting period is 9.11 years (31 December 2016: 8.46 years, 1 January 2016: 8.23 years).

27 TRADE PAYABLES

	2017	*2016*	*As at 1 January 2016*
	SR	*SR*	*SR*
Trade payables	**109,314,814**	86,363,002	74,029,628
Related parties (note 31)	**7,935,038**	6,084,071	4,367,798
	117,249,852	92,447,073	78,397,426

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 60-day terms
- For terms and conditions relating to related parties, refer to Note 31
- Other payables are non-interest bearing and have an average term of six months

For explanations on the Group's liquidity risk management processes, refer to Note 35.

28 ACCRUALS AND OTHER PAYABLES

	2017	2016	As at 1 January 2016
	SR	*SR*	*SR*
Accrued expenses	**97,205,191**	75,971,606	41,688,602
Retentions payable	**11,793,223**	9,553,824	11,167,938
Others payables	**13,077,437**	6,105,806	8,880,837
Advances from customers	-	-	6,604,380
	122,075,851	91,631,236	68,341,757

29 SHORT TERM LOANS

The short term islamic loans were obtained from a local bank to meet the working capital requirements. These borrowings are secured by promissory note issued by the Group and carry commission charges at prevailing market borrowing rates.

30 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY

Basic and diluted earnings per share is calculated by dividing the net income for the year attributable to the shareholders of the parent company by the weighted average number of outstanding shares during the year as follows:

	2017	*2016*
Profit for the year attributable to the shareholders of the parent company *(SR)*	**336,733,241**	257,182,921
Weighted average number of outstanding shares during the year (share)	**50,000,000**	50,000,000
Basic and diluted earnings per share attributable to the shareholders of the parent company	**6.73**	5.14

31 RELATED PARTIES' TRANSACTIONS AND BALANCES

Related parties represent associated companies, shareholders, directors, affiliates and key management personnel of the Group, and entities controlled or significantly influenced by such parties.

The following are the details of related parties transactions occurred during the year and resulting balances at year end:

Related party	*Relationship*	*Nature of transactions*	*Amounts of transaction*		*Balance*		
							As at 1 January
			2017	*2016*	***2017***	*2016*	*2016*
			SR	*SR*	***SR***	*SR*	*SR*
a) Amounts due from related parties presented in note 18:							
Advance Medical Project Company ("AMPC")	Associate	Revenue	**8,431,851**	8,663,710			
		Other services	**450,062**	433,976			
		Purchases and services	**5,463,154**	3,272,636	**468,797**	407,551	4,562,106
Other	Affiliates	Other	**-**	670,811	**-**	770,001	825,910
					468,797	1,177,552	5,388,016
b) Amounts due to related parties presented in note 27:							
Al-Mouwasat International Company	Affiliate	Purchases and services	**23,230,114**	18,186,334	**3,691,700**	1,637,953	1,188,321
AdVision Media Solution	Affiliate	Purchases and services	**14,266,966**	11,774,079	**2,598,660**	4,287,046	2,819,508
Magrabi Hospitals & Centers Company Ltd.	Affiliate	Expenses	**4,430,526**	4,236,890			
		Revenue	**4,166,017**	7,835,875	**1,644,678**	159,072	359,969
Gilan Company For Restaurants	Affiliate	Rental income	**148,333**	-	**-**	-	-
					7,935,038	6,084,071	4,367,798

Compensation of key management personnel of the Group:

	2017	*2016*
	SR	*SR*
Salaries and allowances	**7,611,000**	4,710,000
Incentives and other benefits	**9,328,276**	8,137,379
	16,939,276	12,847,379

The amounts disclosed in the table are the amounts recognised as an expense during the reporting year related to key management personnel.

Prices and terms of payment of the above transactions are approved by the Group's management.

32 SEGMENTAL INFORMATION

Operating segments:

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

In-patient – Services to customers with overnight stay at hospital

Out-patient – Services to customers without overnight stay at hospital

Pharmaceuticals – Goods, such as medicines and healthcare products

The Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on income and is measured consistently in the consolidated financial statements.

	In-patient SR	*Out-patient* SR	*Pharmeceuticals* SR	*Total* SR
For the year ended 31 December 2017				
Revenue	**645,391,720**	**644,195,970**	**217,550,186**	**1,507,137,876**
Gross profit	**324,118,546**	**324,733,064**	**63,315,707**	**712,167,317**
Unallocated income (expenses)				
Selling and distribution expenses				**(151,174,000)**
General and administration expenses				**(189,467,013)**
Share in results of an associate				**4,118,144**
Other income				**8,795,352**
Finance costs				**(4,892,433)**
Profit before zakat				**379,547,367**
Zakat				**(23,325,552)**
Profit for the year				**356,221,815**
At 31 December 2017				
Total assets	**1,264,494,332**	**942,172,247**	**272,734,072**	**2,479,400,651**
Total liabilities	**417,161,512**	**335,542,955**	**154,168,385**	**906,872,852**

	In-patient SR	*Out-patient* SR	*Pharmeceuticals* SR	*Total* SR
For the year ended 31 December 2016				
Revenue	508,715,845	535,672,720	198,832,870	1,243,221,435
Gross profit	256,213,100	266,473,605	53,765,494	576,452,199
Unallocated income (expenses)				
Selling and distribution expenses				(141,345,585)
General and administration expenses				(147,044,993)
Share in results of an associate				3,038,893
Other income				12,415,726
Finance costs				(6,536,746)
Profit before zakat				296,979,494
Zakat				(21,823,357)
Profit for the year				275,156,137

32 SEGMENTAL INFORMATION (continued)

	In-patient SR	*Out-patient* SR	*Pharmecuticals* SR	*Total* SR
At 31 December 2016				
Total assets	1,024,427,813	777,496,935	297,024,849	2,098,949,597
Total liabilities	344,749,705	271,646,338	128,286,505	744,682,548
As at 1 January 2016				
Total assets	875,537,518	692,454,861	299,439,940	1,867,432,319
Total liabilities	314,482,072	246,832,066	113,408,377	674,722,515

Geographical segments:

All of the Group's operating assets and principal markets of activity are located in the Kingdom of Saudi Arabia.

33 CONTINGENCIES AND COMMITMENTS

Guarantees

The Group's bankers have given guarantees, on behalf of the Group, amounting to nil (31 December 2016: SR 1.8 million, 1 January 2016: SR 14 million) mainly in respect of performance guarantees to customers.

Capital commitments

The board of directors have authorised future capital expenditure amounting to SR 472.7 million (31 December 2016: SR 368.8 million, 1 January 2016: SR 302.2 million) relating to certain expansion projects.

34 OPERATING LEASE

The Group has operating leases for rental of certain properties which generally have a term of 5 years (31 December 2016: same, 1 January 2016: same). The rental charge for the year amounted to SR 4.3 million (2016: SR 4.2 million and as at 1 January 2016: SR 4.5 million).

Future rental commitments at the consolidated statement of financial position date under these operating leases are as follows:

	2017 SR	*2016* SR	*As at 1 January 2016* SR
Within one year	**4,869,742**	5,125,740	4,518,880
For next five years	**10,923,803**	17,118,165	13,402,444
	15,793,545	22,243,905	17,921,324

35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise loans and borrowings and accounts payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include accounts receivables, term deposits and cash and cash equivalents that derive directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management regularly review the policies and procedures to ensure that all the financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Group does not engage into any hedging activities. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below:

35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: commission rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings and term deposits. The sensitivity analyses in the following sections relate to the position as at 31 December in 2017.

Commission rate risk

Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. The Group's exposure to the risk of changes in market commission rates relates primarily to the Group's long-term, short term loans and term deposits with floating commission rates. The Group manages its exposure to commission rate risk by continuously monitoring movements in commission rates.

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

	Increase/ Decrease in basis points	*Effect on profit before zakat*
At 31 December 2017	**-50**	**2,221,377**
	+50	**(2,221,377)**
At 31 December 2016	-50	1,719,350
	+50	(1,719,350)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company deals mainly in US Dollars and Saudi Riyal. As the Saudi Riyal is pegged to the US Dollars, balances in Saudi Riyal are not considered to represent significant currency risk.

Commodity risk

The Group is exposed to the impact of market fluctuations of the price of various inputs to production including pharmaceuticals supplies. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of such materials to manage the risk.

b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk on its cash and cash equivalents, term deposits and accounts receivables as follows:

	2017 SR	*2016 SR*	*As at 1 January 2016 SR*
Cash and cash equivalent	**201,792,146**	124,902,512	81,002,809
Term deposit	**40,000,000**	30,000,000	150,000,000
Accounts receivable	**348,727,621**	307,815,128	236,115,782
	590,519,767	462,717,640	467,118,591

35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Accounts receivable
Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Trade receivables of the Group are spread across large number of customers comprising of Ministries, insurance companies and semi-government companies. The Group seeks to manage its credit risk with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and ensuring close follow ups. The management has established a credit policy under which each new insurance company is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. An impairment analysis is performed at each reporting date on an individual basis for major customers. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual historical data. The Group evaluates the concentration of risk with respect to trade accounts receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Cash and cash equivalents and term deposits
Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks. At the reporting date, no significant concentration of credit risk were identified by the management.

c) Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to realise financial assets quickly at an amount close to its fair value. The Group manages its liquidity risk by monitoring working capital and cash flow requirements on regular basis. The Group manages its liquidity risk by ensuring that bank facilities are available. The Group's terms of sales and services require amounts to be paid within 30 to 60 days of the date of submitting the invoice. Trade payables are normally settled within 60 to 120 days of the date of purchase.

The table below summarises the maturities of the Company's undiscounted financial liabilities at 31 December 2017, based on contractual payment dates and current market interest rates.

	At 31 December 2017				
	Less than 3 months SR	*3 to 12 months SR*	*1 to 5 years SR*	*> 5 years SR*	*Total SR*
Trade payables	71,147,657	38,167,157	-	-	109,314,814
Term loans	23,594,782	79,110,792	415,144,727	79,220,627	597,070,928
	94,742,439	**117,277,949**	**415,144,727**	**79,220,627**	**706,385,742**

	At 31 December 2016				
	Less than 3 months SR	*3 to 12 months SR*	*1 to 5 years SR*	*> 5 years SR*	*Total SR*
Trade payables	54,645,190	31,717,812	-	-	86,363,002
Term loans	36,708,209	105,547,850	243,978,204	98,787,633	485,021,896
Short term loans	-	1,057,500	-	-	1,057,500
	91,353,399	138,323,162	243,978,204	98,787,633	572,442,398

	As at 1 January 2016				
	Less than 3 months SR	*3 to 12 months SR*	*1 to 5 years SR*	*> 5 years SR*	*Total SR*
Trade payables	49,218,529	24,811,099	-	-	74,029,628
Term loans	33,231,560	87,649,531	233,249,501	103,913,730	458,044,322
	82,450,089	112,460,630	233,249,501	103,913,730	532,073,950

35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

d) Capital management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the year ended December 31, 2017 and the year ended December 31, 2016 except for the increase in share capital subsequent to consolidated financial statements date (Note 22). Capital comprises share capital, statutory reserve, retained earnings and other reserve and is measured at SR 1,490,341,588 as at December 31, 2017 (31 December 2016: SR 1,276,720,272, 1 January 2016: SR 1,122,849,172).

36 FAIR VALUES OF FINANCIAL INSTRUMENTS

The management assessed that the fair values of bank balances, trade and other receivables, trade and other payables approximate their carrying values largely due to the short-term maturities of these financial instruments.