MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED DECEMBER 31, 2019

MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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Deloitte and Touche & Co.
Chartered Accountants
Dammam branch office
License # 323/11/96/2
Date 24/4/1419
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

To the shareholders
Mouwasat Medical Services Company (A Saudi Joint Stock Company)
Dammam, Kingdom of Saudi Arabia

Report on the Audit of the Consolidated Financial Statements

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 of December 31, 2019, and the consolidated statement of profit or loss and other 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 of December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Group in accordance with the 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 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 judgement, 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 whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MOUWASAT MEDICAL SERVICES COMPANY (CONTINUED)

Key Audit Matters (continued)	How our audit addressed the Key Audit Matters
Valuation of refund liabilities	
As at 31 December 2019, refund liabilities are carried at SR 234 million (2018: SR 144.4 million) and the estimated amount of variable consideration such as rejections, volume discount and prompt payment discounts for the year then ended is SR 233.3 million (2018: 131.7 million). Certain contracts with customers include variable consideration such as volume discounts, prompt payment discounts and a right of rejection of certain services provided. Management measures revenue which is subject to variable consideration by applying judgements and making estimates, for example as probability weighted amounts based on historical data of customer reconciliations, current and forecast information and recognizes refund liabilities accordingly. We considered this as to be a key audit matter because the determination of the recognition of revenue requires significant judgements to be applied and estimates to be made in determining the amounts to be recognized. Refer to notes 3 and 35 to the consolidated financial statements for accounting policies and the relevant detailed disclosures respectively.	Our audit procedures included, but were not limited to, the following: • We obtained an understanding of the process followed by management to determine the amount of refund liabilities. • We evaluated the design and implementation of the relevant controls in the determination of the refund liability. • We assessed the probability weighted methods used by management to estimate the variable consideration, for example, volume discounts, prompt payment discounts and rejection levels; • We reviewed the reconciliation of customers' rejections agreed between the Group and its respective customers and assessed whether the data used by the Group in developing its estimation of the rejection rate was current; • We assessed the accuracy and completeness of the underlying data, on a sample basis, to determine if the gross revenue, agreed volume discount rates and prompt payment discounts for selected customers used in the calculation of the refund liability was appropriate; • We utilized our internal specialists to review the methodology used in estimating the variable consideration and to assess the judgments applied by management; • We assessed the methodology used in the calculation of the refund liability against accepted best practice. • We reperformed the mathematical accuracy of the calculation of the refund liability; • We agreed the results of the calculation of the refund liability to the amount reported in the consolidated financial statements; and • We assessed the disclosures in the consolidated financial statements relating to this matter against the requirements of IFRSs.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MOUWASAT MEDICAL SERVICES COMPANY (CONTINUED)

Key Audit Matters (continued)	How our audit addressed the Key Audit Matters
First time adoption of IFRS 16 Leases	Our audit procedures included, but were not limited to, the following:
The Group adopted IFRS 16 Leases with effect from January 1, 2019, which resulted in changes to the accounting policies. The Group has elected not to restate comparative information in accordance with the transitional provisions contained within IFRS 16. The impact of IFRS 16 is a change in the accounting policy for operating leases. This change in accounting policy results in right-of-use assets and lease liabilities being recognized in the statement of financial position. The incremental borrowing rate ("IBR") method has been applied where the implicit rate in a lease is not readily determinable. As a result, the Group recognised right-of-use assets and lease liabilities of SR 41.42 million as at January 1, 2019 being the date of transition to IFRS 16. The adoption of IFRS 16 has resulted in changes to processes, systems and controls. Because of the number of judgements which have been applied and the estimates made in determining the impact of IFRS 16, this area is considered as a key audit matter. The transitional impact of IFRS 16 has been disclosed in note 5 to the consolidated financial statements.	• We obtained an understanding of the Group's adoption of IFRS 16 and identified the internal controls including entity level controls adopted by the Group for the accounting, processes and systems under the new accounting standard. • We assessed the design and implementation of key controls pertaining to the application of IFRS 16. • We assessed the discount rates applied in determining lease liabilities with input from our internal specialists. • We verified the accuracy of the underlying lease data by agreeing a representative sample of leases to original contracts or other supporting information and assessed the integrity and mechanical accuracy of the IFRS 16 calculations for each lease sampled through recalculation of the expected IFRS 16 adjustment. • We considered the completeness of the lease data by testing the reconciliation of the Group's lease liability to operating lease commitments disclosed in the 2018 financial statements and by considering if we had knowledge of any other contracts which may contain a lease. • We determined if the disclosures made in the financial statements pertaining to leases, including disclosures relating to the transition to IFRS 16, were in compliance with IFRSs.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MOUWASAT MEDICAL SERVICES COMPANY (CONTINUED)

Other Information included in the Groups' 2019 Annual Report

Other information consist of the information included in the Group's 2019 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual 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.

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 IFRSs that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MOUWASAT MEDICAL SERVICES COMPANY (CONTINUED)

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

- 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matter. 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 the matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

Deloitte and Touche & Co.
Chartered Accountants

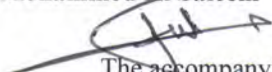
Abdul Rahman S. Al-Suwayegh
License No. 461
13 Rajab, 1441H
March 8, 2020

MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

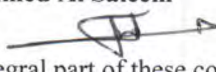
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019

	Notes	2019 SR	2018 SR
Revenue			
Operating revenue, net	6	**1,597,130,202**	1,441,677,488
Sales	6	**260,077,504**	235,341,262
		1,857,207,706	1,677,018,750
Cost			
Cost of operations	8	**(840,943,909)**	(734,288,563)
Cost of sales		**(186,993,449)**	(169,231,513)
Gross profit		**829,270,348**	773,498,674
Expenses			
Selling and distribution expenses	9	**(108,191,473)**	(154,229,169)
General and administration expenses	10	**(250,591,696)**	(215,208,833)
Operating profit		**470,487,179**	404,060,672
Share of results of an associate	19	**3,619,069**	3,452,167
Other income, net	11	**8,280,013**	7,317,887
Finance cost	12	**(20,156,149)**	(6,139,230)
Profit before zakat		**462,230,112**	408,691,496
Zakat	13	**(13,465,942)**	(24,389,837)
PROFIT FOR THE YEAR		**448,764,170**	384,301,659
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that will not to be reclassified to profit or loss in subsequent period:			
Re-measurement loss on employee's retirement benefit obligations	31	**(3,629,076)**	(338,941)
Other comprehensive loss for the year		**(3,629,076)**	(338,941)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**445,135,094**	383,962,718
Profit for the year attributable to:			
Shareholders of the Company		**421,029,467**	360,206,736
Non-controlling interests	29	**27,734,703**	24,094,923
		448,764,170	384,301,659
Total comprehensive income for the year attributable to:			
Shareholders of the Company		**417,630,493**	359,900,412
Non-controlling interests	29	**27,504,601**	24,062,306
		445,135,094	383,962,718
Earnings per share			
Basic and diluted earnings per share attributable to the Shareholders of the Company	14	**4.21**	3.60

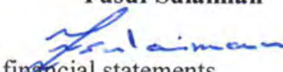
Managing Director
Mohammed Al Saleem



Authorized Board Representative
Mohammed Al Saleem



Chief Finance Officer
Yusuf Sulaiman



The accompanying notes form an integral part of these consolidated financial statements

MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019

	Notes	2019 SR	2018 SR
ASSETS			
Non-current assets			
Property and equipment	15	**2,075,538,020**	1,910,684,112
Goodwill	16	**16,371,000**	16,371,000
Intangible assets	17	**17,015,310**	14,784,861
Right-of-use asset	18	**37,974,563**	-
Investment in an associate	19	**12,362,672**	12,195,770
Advances to contractors	20	**103,226,793**	58,664,165
Total non-current assets		**2,262,488,358**	2,012,699,908
Current assets			
Inventories	21	**165,326,214**	139,748,148
Accounts receivable	22	**717,583,249**	655,294,301
Advances, prepayments and other assets	23	**83,223,380**	80,464,191
Term deposits	24	**90,000,000**	35,000,000
Cash and cash equivalents	25	**204,624,026**	130,179,418
Total current assets		**1,260,756,869**	1,040,686,058
TOTAL ASSETS		**3,523,245,227**	3,053,385,966
EQUITY AND LIABILITIES			
Equity			
Share capital	26	**1,000,000,000**	1,000,000,000
Statutory reserve	28	**281,829,508**	239,726,561
Retained earnings		**673,685,617**	473,158,071
Equity attributable to shareholders of the Company		**1,955,515,125**	1,712,884,632
Non-controlling interests	29	**96,675,866**	93,671,265
Total equity		**2,052,190,991**	1,806,555,897
Non-current liabilities			
Term loans	30	**601,799,471**	602,210,581
Retirement benefit obligations	31	**97,142,980**	79,267,384
Lease liabilities	32	**33,972,152**	-
Total non-current liabilities		**732,914,603**	681,477,965
Current liabilities			
Accounts payable	33	**211,904,715**	181,802,396
Accruals and other payables	34	**134,441,957**	122,498,579
Refund liabilities	35	**234,054,183**	144,388,551
Lease liabilities	32	**4,002,411**	-
Current portion of term loans	30	**120,411,113**	79,193,504
Zakat provision	13	**33,325,254**	37,469,074
Total current liabilities		**738,139,633**	565,352,104
Total liabilities		**1,471,054,236**	1,246,830,069
TOTAL EQUITY AND LIABILITIES		**3,523,245,227**	3,053,385,966

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

The accompanying notes form an integral part of these consolidated financial statements

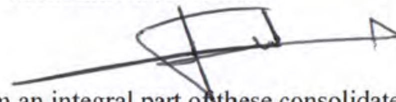
MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019

	Share capital SR	Statutory reserve SR	Retained earnings SR	Equity attributable to the shareholders of the Company SR	Non-controlling Interests SR	Total equity SR
January 1, 2018	500,000,000	203,705,887	786,635,701	1,490,341,588	82,186,211	1,572,527,799
Impact of IFRS 9 adoption	-	-	83,474,933	83,474,933	576,201	84,051,134
Impact of IFRS 15 adoption	-	-	(70,832,301)	(70,832,301)	2,526,547	(68,305,754)
January 1, 2018 (adjusted)	500,000,000	203,705,887	799,278,333	1,502,984,220	85,288,959	1,588,273,179
Profit for the year	-	-	360,206,736	360,206,736	24,094,923	384,301,659
Other comprehensive loss for the year	-	-	(306,324)	(306,324)	(32,617)	(338,941)
Total comprehensive income for the year	-	-	359,900,412	359,900,412	24,062,306	383,962,718
Transfer to statutory reserve	-	36,020,674	(36,020,674)	-	-	-
Increase in share capital by issuing bonus shares (note 26)	500,000,000	-	(500,000,000)	-	-	-
Dividends (note 27)	-	-	(150,000,000)	(150,000,000)	-	(150,000,000)
Other movement in non-controlling interests	-	-	-	-	(15,680,000)	(15,680,000)
December 31, 2018	1,000,000,000	239,726,561	473,158,071	1,712,884,632	93,671,265	1,806,555,897
Profit for the year	-	-	**421,029,467**	**421,029,467**	**27,734,703**	**448,764,170**
Other comprehensive loss for the year	-	-	**(3,398,974)**	**(3,398,974)**	**(230,102)**	**(3,629,076)**
Total comprehensive income for the year	-	-	**417,630,493**	**417,630,493**	**27,504,601**	**445,135,094**
Transfer to statutory reserve	-	**42,102,947**	**(42,102,947)**	-	-	-
Dividends (note 27)	-	-	**(175,000,000)**	**(175,000,000)**	-	**(175,000,000)**
Other movement in non-controlling interests	-	-	-	-	**(24,500,000)**	**(24,500,000)**
December 31, 2019	**1,000,000,000**	**281,829,508**	**673,685,617**	**1,955,515,125**	**96,675,866**	**2,052,190,991**

Managing Director
Mohammed Al Saleem

Authorized Board Representative
Mohammed Al Saleem



Chief Finance Officer
Yusuf Sulaiman

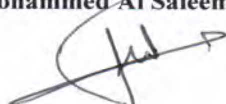
The accompanying notes form an integral part of these consolidated financial statements

MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

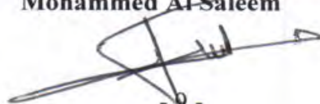
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019 SR	2018 SR
OPERATING ACTIVITIES		
Profit before zakat	**462,230,112**	408,691,496
Adjustments for:		
Depreciation	**138,202,813**	106,805,460
Allowance for doubtful receivables	**(10,668,307)**	7,208,254
Amortization of intangible assets	**3,291,406**	2,995,302
Depreciation of right-of-use assets	**3,452,233**	-
Share of results of an associate	**(3,619,069)**	(3,452,167)
Retirement benefit obligations	**22,595,051**	19,539,939
Finance cost	**26,622,724**	23,613,979
Property and equipment written off	**235,000**	702,097
Gain on disposal of property and equipment	**(413,479)**	(134,892)
	641,928,484	565,969,468
Movement in working capital:		
Accounts receivable	**(51,620,641)**	(298,029,554)
Advances, prepayments and other assets	**(2,759,189)**	(18,615,354)
Inventories	**(25,578,066)**	(17,950,238)
Accounts payable	**30,102,319**	52,759,322
Accruals and other payables	**6,153,924**	8,428,125
Refund liabilities	**89,665,632**	144,388,551
Cash from operations	**687,892,463**	436,950,320
Retirement' benefit obligations paid	**(8,348,531)**	(8,078,358)
Finance cost paid	**(20,197,894)**	(19,826,154)
Interest paid on lease liabilities	**(635,376)**	-
Zakat paid	**(17,609,762)**	(23,209,319)
Net cash from operating activities	**641,100,900**	385,836,489
INVESTING ACTIVITIES		
Purchase of property and equipment	**(265,065,772)**	(306,735,422)
Purchase of intangible assets	**(5,521,855)**	(5,133,482)
Proceeds on disposal of property and equipment	**687,520**	415,065
Dividend received from an associate	**3,452,167**	4,118,144
Advances to contractors	**(83,062,618)**	(107,045,876)
Term deposit	**(55,000,000)**	5,000,000
Net cash used in investing activities	**(404,510,558)**	(409,381,571)

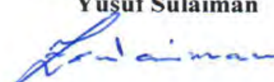
Managing Director
Mohammed Al Saleem



Authorized Board Representative
Mohammed Al Saleem



Chief Finance Officer
Yusuf Sulaiman



MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

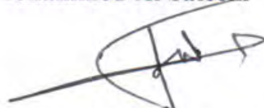
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019 SR	2018 SR
FINANCING ACTIVITIES		
Proceeds from term loans	**120,000,000**	222,680,424
Repayment of term loans	**(79,193,501)**	(105,068,070)
Repayment of principal of lease liability	**(3,452,233)**	-
Dividends paid to shareholders	**(175,000,000)**	(150,000,000)
Other movement in non-controlling interests	**(24,500,000)**	(15,680,000)
Net cash used in financing activities	**(162,145,734)**	(48,067,646)
Net increase / (decrease) in cash and cash equivalents	**74,444,608**	(71,612,728)
Cash and cash equivalents at the beginning of the year	**130,179,418**	201,792,146
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**204,624,026**	130,179,418

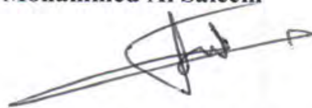
Non cash transactions

	2019	2018
Increase in share capital by issuing bonus shares	-	500,000,000
Decrease in impairment loss against accounts receivable on adoption of IFRS 9	-	84,051,134
Adjustment to accounts receivable on adoption of IFRS 15	-	(68,305,754)
Finance cost capitalized	**6,466,575**	17,474,749
Transfer from advances to contractors to property and equipment	**38,499,990**	77,758,384
Re-measurement loss on retirement benefit obligation	**3,629,076**	338,941

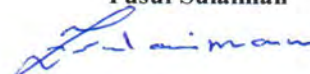
Managing Director
Mohammed Al Saleem



Authorized Board Representative
Mohammed Al Saleem



Chief Finance Officer
Yusuf Sulaiman



The accompanying notes form an integral part of these consolidated financial statements

1. GENERAL INFORMATION

Mouwasat Medical Services Company ("the Company") is registered in Saudi Arabia under commercial Registration number 2050032029 dated 12 Ramadan 1417H (corresponding to January 21, 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 January 4, 2006).

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

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

The Company through its following branches 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
Dammam	2050046891	18/09/1425H
Dammam	2050111494	20/04/1438H
Dammam	2050111780	25/05/1438H
Dammam	2050086573	27/11/1433H
Khobar	2051064380	12/09/1438H
Jubail	2055004626	09/03/1421H
Jubail	2055006727	19/09/1425H
Madinah	4650029967	06/05/1421H
Madinah	4650030759	11/11/1421H
Madinah	4650083001	18/01/1438H
Riyadh	1010295838	09/11/1431H

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

The Company had adopted IFRS 16 during the year ended December 31, 2019 and the impact of this adoption is presented in note 5.

2.1 New and amended IFRS applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after January 1, 2019, have been adopted in these financial statements.

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 9 *Prepayment Features with Negative Compensation and Modification of financial liabilities*	January 1, 2019
The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.	
The amendment applies to annual periods beginning on or after January 1, 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.	
Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures.	January 1, 2019
These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	
Annual Improvements to IFRSs 2015-2017 *Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs*	January 1, 2019
The *Annual Improvements* include amendments to four Standards.	
IAS 12 *Income Taxes*	January 1, 2019
The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.	
IAS 23 *Borrowing costs*	January 1, 2019
The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.	
IFRS 11 *Joint Arrangements*	January 1, 2019
The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not re-measure its PHI in the joint operation.	

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

2.1. New and amended IFRS applied with no material effect on the financial statements (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 3 *Business Combinations*	January 1, 2019
The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including re-measuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be re-measured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.	
Amendments to IAS 19 *Employee Benefits Plan Amendment, Curtailment or Settlement*	January 1, 2019
The amendments to IAS 19 Employee Benefits clarify the accounting for defined benefit plan amendments, curtailments and settlements.	
IFRIC 23 Uncertainty over Income Tax Treatments	January 1, 2019
The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.	

The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

2.2 New and revised IFRS Standards in issue but not yet effective and not early adopted

The Group has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Definition of Material - Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	January 1, 2020
The new definition states that, ‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.’	

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

2.2. New and revised IFRS Standards in issue but not yet effective and not early adopted (continued)

The Group has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Definition of a Business – Amendments to IFRS 3 Business Combinations The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.	January 1, 2020
Amendments to References to the Conceptual Framework in IFRS Standards Amendments to References to the Conceptual Framework in IFRS Standards related IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.	January 1, 2020
IFRS 7 Financial Instruments: Disclosures and IFRS 9 — Financial Instruments Amendments regarding pre-replacement issues in the context of the IBOR reform	January 1, 2020
IFRS 17 *Insurance Contracts* IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as at January 1, 2022.	January 1, 2022
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, may have no material impact on the financial statements of the Group in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") as endorsed by Saudi Organization for Certified Public Accountants (SOCPA) (IFRS endorsed by SOCPA).

As required by CMA through its circular dated October 16, 2016, the Group applied cost model to measure the property, plant and equipment upon adopting IFRS for three years starting from IFRS adoption date January 1, 2017.

These consolidated financial statements are prepared using historical cost convention using the accrual basis of accounting. For employees' retirement benefit obligations, 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
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses 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 listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS Standards).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 Financial Instruments when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)
Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investments in associates
An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5.

Under the equity method, an investment in an associate is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates (continued)
When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition
The Group generates its revenue from sale of pharmaceuticals and rendering of inpatient and outpatient services over time and at a point in time. Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The goods and services are sold both on their own in separately identified contracts with customers and together as a bundled package of goods and/or services.

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Operating revenue
The revenue is recognized (net of discounts) when the treatment is provided and the invoice is generated (i.e. after satisfaction of performance obligation). 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 (rejection of claims) when the related services are rendered.

Some contracts includes variable considerations such as rejection of claims, volume discount and prompt payment discount. Management estimates variable consideration using the expected value method for rejections and single most likely amount method for prompt payment discount and volume discounts. Management apply one method consistently throughout the contract when estimating the effect of an uncertainty on an amount of variable consideration to which the Group will be entitled. In addition, management consider all the information (historical, current and forecast) that is reasonably available to the Group and identify a reasonable number of possible consideration amounts.

Revenue from inpatient services are recognized over a period of time and outpatient services are recognized at the point in time.

Sale of goods
Sales of goods represents the invoiced value of medicines and drugs supplied by the Group. The Group's contracts with customers for the sale of medicines and drugs generally include one performance obligation. Revenue from sale of medicines and drugs is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery/dispensing of the medicines and drugs.

Interest income on term deposit
Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend
Dividend income from investments is recognized when the shareholders right to receive payment has been established.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from January 1, 2019)

The Group as lessee

The Group assesses whether contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease

The lease liability is presented as a separate line item in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revise discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use of asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from January 1, 2019) (continued)

The Group as lessee (continued)

The Group applies IAS36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss as described in the 'Property and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Other expenses' in the statement of profit or loss.

As a practical expedient, IFRS16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

The Group as lessor
The Group enters into lease agreements as a lessor with respect to some of its building properties.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Group applies IFRS 15 to allocate consideration under the contract to each component.

Leases (applicable before January 1, 2019)
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor
Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable before January 1, 2019) (continued)

The Group as lessee
Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies
In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise.

Borrowing cost
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Zakat and tax

Zakat
The Group is subject to the regulations of the General Authority of Zakat and Income Tax ("GAZT") in the Kingdom of Saudi Arabia. Zakat is charged to the statement of profit or loss on an accruals basis. The zakat charge is computed on the Saudi shareholders' share of the zakat base or adjusted net profit whichever is higher. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Zakat and tax (continued)

Value added tax
Expenses and assets are recognised net of the amount of value added tax (“VAT”), except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the GAZT, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

- When receivables and payables are stated with the amount of VAT included.

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

Property and equipment
Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the consolidated statement of profit or loss as incurred.

Depreciation is calculated based on the estimated useful lives of the applicable assets on a straight-line basis commencing when the assets are ready for their intended use. The estimated useful lives, residual values and depreciation methods are reviewed at each statement of financial position date, with the effect of any changes in estimate accounted for on a prospective basis. Freehold land and properties under construction are not depreciated.

The following useful lives are used in the calculation of depreciation:

	Years
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 is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in the statement of profit or loss.

Capital work in progress
Capital work-in-progress is transferred to the related property and equipment when the construction or installation and related activities necessary to prepare the property and equipment for their intended use have been completed, and the property and equipment are ready for operational use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets
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

Intangible assets acquired separately
Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Derecognition of intangible assets
An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets other than goodwill
At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

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 a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

Retirement benefit costs and termination benefits
For defined retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Re-measurement, comprising actuarial gains and losses is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Re-measurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- re-measurement.

Curtailment gains and losses are accounted for as past service costs.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

Short-term and other long-term employee benefits
A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date

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.

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 the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement
For measurement and disclosure purposes, the Group determines the fair value of an asset or liability at initial measurement or at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. 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 to 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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs Fair value for measurement and/or disclosure purposes in these financial statements is determined on the basis as explained above, except for share-based payment transactions that are within the scope of IFRS 2; leasing transactions that are within the scope of IAS 17 and measurements that have some similarities to fair value, but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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

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

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

Financial instruments
Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the statement of profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets
All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

(i) Debt instruments designated at amortised cost
Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(ii) Debt instrument designated at other comprehensive income
By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

For financial instruments other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

Amortised cost and effective interest rate method
The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Classification of financial assets (continued)

(ii) Debt instrument designated at other comprehensive income (continued)

Amortised cost and effective interest rate method (continued)
For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "finance income - interest income" line item.

(iii) Equity instruments designated as at FVTOCI
On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are presented as a separate line item in profit or loss.

(iv) Financial assets at FVTPL
Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called ‘accounting mismatch’) that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss.

Impairment of financial assets
The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, trade receivables, contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)
The Group always recognises lifetime ECL for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) *Significant increase in credit risk*
In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(1) The financial instrument has a low risk of default,
(2) The borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and
(3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

(ii) Definition of default
The Group employs statistical models to analyse the data collected and generate estimates of probability of default ("PD") of exposures with the passage of time. This analysis includes the identification for any changes in default rates and changes in key macro-economic factors across various geographies of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(iii) Credit-impaired financial assets
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event (see (ii) above);

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy
The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery.

(v) Measurement and recognition of expected credit losses
The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets (continued)
On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities
All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL
Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on changes in fair value recognised in the consolidated statement of profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in the consolidated statement profit or loss incorporates any interest paid on the financial liability.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in statement of other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch statement of in profit or loss. The remaining amount of change in the fair value of liability is recognised in statement of profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in statement of other comprehensive income are not subsequently reclassified to statement of profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Group that are designated by the Group as at FVTPL are recognised in profit or loss.

Financial liabilities measured subsequently at amortised cost
Financial liabilities that are not designated as FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- Expected to be 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.

Dividend distribution
Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Events after the reporting date
The financial statements are adjusted to reflect events that occurred between the reporting date and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the reporting date. Any post year-end events that are non-adjusting are discussed on the financial statements when material.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgments and estimates
The preparation of the consolidated financial statements in compliance with IFRS requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Critical judgements (continued)

Revenue recognition
Management considers recognizing revenue over time, if one of the following criteria is met, otherwise revenue will be recognized at a point in time:

a) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
c) the Group's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Contract variations
Contract variations are recognised as revenues only to the extent that it is probable that they will not result in a significant reversal of revenue in subsequent periods. Management considers prior experience, application of contract terms and the relationship with the customers in making their judgement.

Determining the lease term
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Property and equipment
The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, the repair and maintenance program and technological obsolescence arising from changes and the residual value.

Significant increase in credit risk
ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTANITY (CONTINUED)

Estimates

The key assumptions concerning the future and other sources of estimation uncertainty at the financial position date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Discounting of lease payments

The lease payments are discounted using the Group's incremental borrowing rate ("IBR"). Management has applied judgments and estimates to determine the IBR at the commencement of lease.

Property, and equipment

The Group reviews appropriateness of the rate of depreciation, useful life and residual value used in the calculation of depreciation. Further, where applicable, an estimate of recoverable amount of assets is made for possible impairment on an annual basis.

Allowance for doubtful accounts receivable

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. The Group uses estimates for the computation of loss rates.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

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.

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 Group is not yet committed to or significant future investments that will enhance the perfo1mance 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.

Refund liabilities

The refund liability relates to certain customers' right to volume discounts, prompt payment discounts and rejection of certain services provided to the patients upon submission of invoices to the customers. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those services provided to certain customers products expected to be returned. The Group uses its accumulated historical experience to estimate the refund liabilities using the expected value method.

5. IMPACT OF ADOPTION OF IFRS 16

In the current year, the Group, for the first time, has adopted IFRS 16 Leases (as issued by the IASB in January 2016). The standard replaces the existing guidance on leases, including IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC 15 “Operating Leases – Incentives” and SIC 27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 3. The impact of the adoption of IFRS 16 on the Group’s financial statements is described below.

The date of initial application of IFRS 16 for the Group is January 1, 2019.

The Group has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. The Group does not restate any comparative information. Instead, the cumulative effect of applying the standard is recognised as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at the date of initial application.

Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to leases entered or modified before 1 January 2019. The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on Lessee Accounting

Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

a) recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii)
b) recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss; and
c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

Lease incentives (e.g. free rent period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

5. IMPACT OF ADOPTION OF IFRS 16 (CONTINUED)

Impact on Lessee Accounting (continued)

Former operating leases (continued)
Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets. For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes tablets and personal computers, small items of office furniture and telephones), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within ‘other expenses’ in profit or loss.

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.

- The Group has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

Former finance leases
For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Group has elected to apply the low-value lease recognition exemption.

The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 January 2019.

Impact on Lessor Accounting
IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in the leased assets. Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17). These changes have no material effect for the Group.

5. IMPACT OF ADOPTION OF IFRS 16 (CONTINUED)

Financial impact of initial application of IFRS 16

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on January 1, 2019 is 5.05% per annum.

The following table shows the operating lease commitments disclosed applying IAS 17 at December 31, 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognized in the statement of financial position at the date of initial application.

	SR
Operating lease commitments at 31 December 2018	10,443,979
Modification in lease liabilities due to amendment in agreement	(6,356,979)
Finance lease liabilities recognised on 1 January 2019	49,605,000
Effect of discounting the above amounts	(12,265,204)
Lease liabilities recognised at 1 January 2019	41,426,796

The Group has recognised SR 41.42 million of right-of-use assets and SR 41.42 million of lease liabilities upon transition to IFRS 16.

The Group has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17.

6. REVENUE

The Group generates its revenue from sale of pharmaceuticals and rendering of inpatient and outpatient services over time and at point in time. This is consistent with the revenue information that is disclosed for each reportable segment in note 7 operating segments.

Timing of revenue recognition

	2019 **SR**	2018 SR
At a point in time		
Outpatient services	**773,292,935**	693,032,788
Pharmaceuticals	**260,077,504**	235,341,262
	1,033,370,439	928,374,050
Overtime		
Inpatient services	**823,837,267**	748,644,700
	1,857,207,706	1,677,018,750

7. OPERATING SEGMENTS

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.

For management purposes, the Group is organized into business units based on its products and services and has three reportable segments under IFRS which are 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

	In-patient	Out-patient	Pharmaceuticals	Total
For the year ended December 31, 2019	SR	SR	SR	SR
Revenue	**823,837,267**	**773,292,935**	**260,077,504**	**1,857,207,706**
Gross profit	**390,273,994**	**365,912,299**	**73,084,055**	**829,270,348**
Unallocated income (expenses)				
Selling and distribution expenses				**(108,191,473)**
General and administration expenses				**(250,591,696)**
Share in results of an associate				**3,619,069**
Other income				**8,280,013**
Finance cost				**(20,156,149)**
Profit before zakat				**462,230,112**
Zakat				**(13,465,942)**
Net profit for the year				**448,764,170**
For the year ended December 31, 2018				
Revenue	748,644,700	693,032,788	235,341,262	1,677,018,750
Gross profit	367,338,031	340,050,894	66,109,749	773,498,674
Unallocated income (expenses)				
Selling and distribution expenses				(154,229,169)
General and administration expenses				(215,208,833)
Share in results of an associate				3,452,167
Other income				7,317,887
Finance cost				(6,139,230)
Profit before zakat				408,691,496
Zakat				(24,389,837)
Net profit for the year				384,301,659
As at December 31, 2019				
Total assets	**1,832,087,518**	**1,409,298,091**	**281,859,618**	**3,523,245,227**
Total liabilities	**706,106,034**	**544,290,067**	**220,658,135**	**1,471,054,236**
As at December 31, 2018				
Total assets	1,557,225,921	1,190,819,822	305,340,223	3,053,385,966
Total liabilities	586,009,283	461,326,457	199,494,329	1,246,830,069

7. OPERATING SEGMENTS (CONTINUED)

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of the share of profits of associates, central administration costs including directors' salaries, profit from term deposit, non-operating gains and losses in respect of financial instruments and finance costs. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

8. COST OF OPERATIONS

	2019 **SR**	2018 SR
Employees' cost	**437,736,603**	384,122,699
Material consumption	**138,687,207**	131,836,019
Depreciation (note 15)	**110,231,298**	85,174,310
Drug consumption	**71,487,926**	61,398,412
Repair and maintenance	**22,474,904**	19,240,651
Support services	**21,701,164**	19,253,622
Utilities	**12,897,427**	12,386,378
Depreciation of right of use of asset (note 18)	**2,416,563**	-
Amortization of intangible assets (note 17)	**1,670,603**	1,350,290
Others	**21,640,214**	19,526,182
	840,943,909	734,288,563

9. SELLING AND DISTRIBUTION EXPENSES

	2019 **SR**	2018 SR
Allowance for doubtful receivables (note 22)	**12,352,654**	82,620,404
Employee's cost	**62,533,802**	54,874,672
Advertisement and promotion	**33,305,017**	16,734,093
	108,191,473	154,229,169

10. GENERAL AND ADMINISTRATION EXPENSES

	2019 **SR**	2018 SR
Employees' cost	**125,067,599**	109,749,343
Depreciation (note 15)	**27,971,515**	21,631,150
Management bonus	**20,881,525**	17,995,020
Repair and maintenance	**9,632,102**	8,245,993
Support services	**9,300,499**	8,251,626
Office stationery and supplies	**9,250,815**	8,317,470
Executives' salaries	**7,450,000**	6,150,000
Utilities	**5,527,467**	5,308,448
Board of directors' remuneration	**4,050,000**	2,713,800
Amortization of intangible assets (note 17)	**1,620,803**	1,645,012
Depreciation of right of use of asset (note 18)	**1,035,670**	-
Rent	**506,133**	2,251,673
Others	**28,297,568**	22,949,298
	250,591,696	215,208,833

11. OTHER INCOME, NET

	2019 SR	2018 SR
Rental income	**1,569,828**	2,258,297
Suppliers prompt payment discount	**1,123,932**	961,800
Income on term deposits	**1,972,777**	1,095,945
Gain on disposal of property and equipment	**413,479**	134,892
Others	**3,199,997**	2,866,953
	8,280,013	7,317,887

12. FINANCE COST

	2019 SR	2018 SR
Interest on Islamic loans	**19,520,773**	6,139,230
Interest on lease liabilities (note 18)	**635,376**	-
	20,156,149	6,139,230

13. ZAKAT

The principle elements of zakat base are as follows:

	2019 SR	2018 SR
Non-current assets	**2,262,488,358**	2,012,699,908
Non-current liabilities	**732,914,603**	681,477,965
Opening shareholders' equity	**1,712,884,632**	1,502,984,220
Profit before zakat	**462,230,112**	408,691,496
Dividend paid	**(175,000,000)**	(150,000,000)

Some of these amounts have been adjusted in arriving at the zakat charge for the year.

The charge for the year for zakat and income tax is as follows:

	2019 SR	2018 SR
January 1	**37,469,074**	36,288,556
Provision for the year	**13,465,942**	24,389,837
Payments during the year	**(17,609,762)**	(23,209,319)
December 31	**33,325,254**	37,469,074

13. ZAKAT (CONTINUED)

Mouwasat Medical Services Company
The Company has submitted its zakat returns up to year ended 31 December 2018, settled zakat as per the returns and obtained the required certificates and official receipts. The assessments for the years from 2013 to 2016 were finalized and settled in 2018. The assessments for the years 2017 and 2018 are still under review by the General Authority of Zakat and Tax ("GAZT").

Eastern Medical Services Company Limited
EMS has submitted its zakat returns up to year ended 31 December 2018, settled zakat as per the returns and obtained the required certificates and official receipts. The assessments for the years from 2013 to 2016 were finalized and settled in 2018. The assessment for the years 2017 and 2018 are still under review by the GAZT.

Specialised Medical Clinic Company Limited
The Company has submitted its zakat returns up to year ended December 31, 2018, settled zakat as per the returns and obtained the required certificates and official receipts. The assessments for the years from 2009 to 2018 are under review by the GAZT.

14. BASIC AND DILUTED EARNINGS PER SHARE ATTIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY

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

	2019 **SR**	2018 SR
Profit for the year attributable to shareholders of the parent Company (SR)	**421,029,467**	360,206,736
Weighted average number of shares during the year (No of shares)	**100,000,000**	100,000,000
Basic and diluted earnings per share attributable to the shareholders of the parent company (SR)	**4.21**	3.60

In 2018, shareholders resolved to increase the share capital through bonus shares, one share for each existing share (note 26) issued to existing shareholders effective June 3, 2018. Earnings per shares for comparative period has been adjusted accordingly to reflect the impact of increase in share capital.

The denominators used are the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations.

15. PROPERTY AND EQUIPMENT

	Land	Buildings	Building system and improvement	Medical equipment and tools	Furniture and Fixture	Motor vehicles	Construction work in Progress	Total
	SR	SR	SR	SR	SR	SR	SR	SR
Cost								
January 1, 2018	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
Additions	5,750,000	27,250,774	16,346,174	134,251,915	37,924,838	4,491,333	158,478,772	384,493,806
Transfers from CWIP	-	263,678,237	161,126,584	-	45,200	-	(424,850,021)	-
Transfers	-	(6,706,023)	5,451,443	2,315,276	1,175,063	(2,235,759)	-	-
Disposals	-	(3,050)	(74,683)	(1,182,945)	(918,420)	(1,298,561)	(2,133)	(3,479,792)
Write off	-	-	(702,097)	-	-	-	-	(702,097)
December 31, 2018	340,818,602	914,460,462	469,582,070	645,409,275	151,785,891	34,318,943	94,340,083	2,650,715,326
Additions	**42,282,500**	**3,360,443**	**9,607,251**	**67,103,762**	**11,616,909**	**5,843,665**	**163,751,232**	**303,565,762**
Transfers from CWIP	**-**	**4,025,816**	**9,953,017**	**1,821,975**	**320,538**	-	**(16,121,346)**	**-**
Transfers	**-**	**(1,891,147)**	**1,836,147**	**(53,481)**	**108,481**	-	-	**-**
Write offs	**-**	**(235,000)**	**-**	**-**	**-**	**(5,761,178)**	-	**(5,996,178)**
Disposals	**-**	**(250)**	**(377,628)**	**(2,982,378)**	**(980,041)**	**(3,860,954)**	**-**	**(8,201,251)**
December 31, 2019	**383,101,102**	**919,720,324**	**490,600,857**	**711,299,153**	**162,851,778**	**30,540,476**	**241,969,969**	**2,940,083,659**
Depreciation								
January 1, 2018	-	170,968,567	121,919,806	259,300,078	62,154,616	22,082,306	-	636,425,373
Charge for the year	-	24,566,837	23,403,702	43,296,500	11,245,535	4,292,886	-	106,805,460
Disposals	-	(3,048)	(74,678)	(1,160,840)	(913,536)	(1,047,517)	-	(3,199,619)
December 31, 2018	-	195,532,356	145,248,830	301,435,738	72,486,615	25,327,675	-	740,031,214
Charge for the year	**-**	**26,171,509**	**40,481,973**	**52,614,497**	**14,327,850**	**4,606,984**	-	**138,202,813**
Transfers	**-**	**(4,078,817)**	**4,269,234**	**(188,481)**	**(1,936)**	**-**	-	**-**
Write offs	**-**	**-**	**-**	**-**	**-**	**(5,761,178)**	-	**(5,761,178)**
Disposals	**-**	**(249)**	**(377,606)**	**(2,982,378)**	**(937,901)**	**(3,629,076)**	-	**(7,927,210)**
December 31, 2019	**-**	**217,624,799**	**189,622,431**	**350,879,376**	**85,874,628**	**20,544,405**	-	**864,545,639**
Net book value								
December 31, 2019	**383,101,102**	**702,095,525**	**300,978,426**	**360,419,777**	**76,977,150**	**9,996,071**	**241,969,969**	**2,075,538,020**
December 31, 2018	340,818,602	718,928,106	324,333,240	343,973,537	79,299,276	8,991,268	94,340,083	1,910,684,112

15. PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation charge for the year has been allocated as follow:

	2019 **SR**	2018 SR
Cost of operations (note 8)	**110,231,298**	85,174,310
General and administration expenses (note 10)	**27,971,515**	21,631,150
	138,202,813	106,805,460

As of December 31, 2019, plots of land amounting to SR 56.1 million (2018: SR 56.1 million) have been pledged as security against term loans from MOF.

Construction work-in-progress represents costs incurred to construct new hospitals and expansion of existing hospitals in Dammam and Madinah as at December 31, 2019. In 2019, borrowing costs of SR 6.45 million (2018: SR 17.5 million) has been capitalised.

16. GOODWILL

On 24 July 2006, the Group acquired 51% of the voting shares of Eastern Medical Services Company Limited (EMS), an unlisted company registered in the Kingdom of Saudi Arabia. The Group performed its annual impairment test in December 2019 and compared the carrying value to their estimated recoverable amount based on appropriate method.

The recoverable amount of the EMS is also determined based on 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 17%. The long term growth rate used to extrapolate the cash flows of the unit beyond the five-year period is 1%. This growth rate of Saudi Arabia is ranging from 1 % to 2.5%. As a result of the analysis, there is recoverable amounts of SR 235 million (2018: SR 197 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 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 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 market data.

Growth rate estimates are based on published industry research.

17. INTANGIBLE ASSETS

Intangible assets represent the software licenses and the license of certain hospitals and dispensaries which are amortised over a period of 3-10 years.

	Software SR	Operating licenses SR	Total SR
Cost			
January 1, 2018	16,417,230	3,921,897	20,339,127
Additions	3,158,796	1,974,686	5,133,482
Write offs	-	(607,695)	(607,695)
December 31, 2018	19,576,026	5,288,888	24,864,914
Additions	**2,956,833**	**2,565,022**	**5,521,855**
Write offs	**-**	**(900,269)**	**(900,269)**
December 31, 2019	**22,532,859**	**6,953,641**	**29,486,500**
Amortization			
January 1, 2018	6,165,722	1,526,724	7,692,446
Charge for the year	1,350,290	1,645,012	2,995,302
Write offs	-	(607,695)	(607,695)
December 31, 2018	7,516,012	2,564,041	10,080,053
Charge for the year	**1,670,603**	**1,620,803**	**3,291,406**
Write offs	**-**	**(900,269)**	**(900,269)**
December 31, 2019	**9,186,615**	**3,284,575**	**12,471,190**
Net book value			
December 31, 2019	**13,346,244**	**3,669,066**	**17,015,310**
December 31, 2018	12,060,014	2,724,847	14,784,861

The amortisation of intangible assets has been allocated as follows:

	2019 **SR**	2018 SR
Cost of operations (note 8)	**1,670,603**	1,350,290
General and administration expenses (note 10)	**1,620,803**	1,645,012
	3,291,406	2,995,302

18. LEASES (Company as lessee)

Right-of-use assets

	Right-of-use assets **SR**	Lease liabilities SR
January 1, 2019 (restated)	**41,426,796**	41,426,796
Depreciation expense	**(3,452,233)**	-
Interest expense	**-**	635,376
Payments	**-**	(4,087,609)
December 31, 2019	**37,974,563**	37,974,563

The Company leases building from an affiliate having lease term of 11 years.

18. LEASES (Company as lessee) (CONTINUED)

Amounts recognised in profit and loss

	2019 SR
Depreciation expense on right-of-use assets	**3,452,233**
Interest expense on lease liabilities (note 12)	**635,376**

The total cash outflow for leases amount to SR 4.08 million

19. 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. AMPC is engaged in operating ophthalmology, ears, noses and throats clinics.

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

	2019 SR	2018 SR
January 1	**12,195,770**	12,861,747
Share in results	**3,619,069**	3,452,167
Dividends	**(3,452,167)**	(4,118,144)
December 31	**12,362,672**	12,195,770

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

20. ADVANCES TO CONTRACTORS

This represents advances made to contractors for hospital projects under progress and purchase of medical equipment. The movement in advances to contractors was as follows:

	2019 SR	2018 SR
January 1	**58,664,165**	29,376,673
Payments during the year	**83,062,618**	107,045,876
Transfer to construction work in progress	**(38,499,990)**	(77,758,384)
December 31	**103,226,793**	58,664,165

21. INVENTORIES

	2019 SR	2018 SR
Pharmaceuticals and cosmetic materials	**85,377,540**	72,669,236
Surgical and consumable tools	**76,622,619**	62,318,256
Spare parts and consumables	**3,326,055**	4,760,656
	165,326,214	139,748,148

The cost of inventories recognised as an expense during the year was SR 469.5 million (2018: SR 417.46 million).

21. INVENTORIES (CONTINUED)

No expense has been recognized in respect of impairment and reversals of thereof for inventories as expired inventories are recalled by the suppliers before the expiry date as per terms of agreement.

No write downs of inventory to net realisable value and of the reversal of such write-downs have been recognized because sales prices of pharmaceutical inventories are regulated by ministry of health and have not changed subsequent to year end.

22. ACCOUNTS RECEIVABLE

	2019 **SR**	2018 SR
Accounts receivable-trade	**746,796,799**	695,176,158
Less: Allowance for doubtful receivables	**(29,213,550)**	(39,881,857)
	717,583,249	655,294,301

The average credit period on accounts receivables is from 60 to 90 days. No interest is charged on accounts receivables' outstanding balance.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

The following table details the risk profile of trade receivables based on the Group's provision matrix. As the Group's historical credit loss experience does not show significantly different loss pattern for different customer segments. The allowances for doubtful debts based on past due status is not further distinguished between the Group's different customer types.

	Trade receivable – days past due					
December31, 2019	**Not past due SR**	**30-90 SR**	**90-180 SR**	**180-360 SR**	**>360 SR**	**Total SR**
Expected credit loss rate %	**0.40%**	**1.33%**	**0.98%**	**3.28%**	**16.24%**	
Gross carrying amount	**189,290,549**	**199,525,127**	**86,674,504**	**147,501,007**	**123,805,612**	**746,796,799**
Lifetime ECL	**(757,228)**	**(2,651,695)**	**(853,200)**	**(4,842,782)**	**(20,108,645)**	**(29,213,550)**
	188,533,321	**196,873,432**	**85,821,304**	**142,658,225**	**103,696,967**	**717,583,249**

	Trade receivable – days past due					
December31, 2018	Not past due SR	30-90 SR	90-180 SR	180-360 SR	>360 SR	Total SR
Expected credit loss rate %	1.87%	2.69%	3.67%	6.71%	23.81%	
Gross carrying amount	158,878,133	167,201,875	149,191,896	148,655,762	71,248,492	695,176,158
Lifetime ECL	(2,971,021)	(4,497,730)	(5,475,343)	(9,974,802)	(16,962,961)	(39,881,857)
	155,907,112	162,704,145	143,716,553	138,680,960	54,285,531	655,294,301

22. ACCOUNTS RECEIVABLE (CONTINUED)

Movement in allowance for accounts receivables

	2019 SR	2018 SR
January 1	**39,881,857**	116,726,544
IFRS 9 adjustment	**-**	(84,051,134)
Provision during the year (note 9)	**12,352,654**	82,620,404
Write offs	**(23,020,961)**	(75,413,957)
December 31	**29,213,550**	39,881,857

23. ADVANCES, PREPAYMENTS AND OTHER ASSETS

	2019 SR	2018 SR
Prepaid expenses	**39,404,548**	39,375,407
Advances to suppliers	**34,945,479**	34,883,280
Contract asset	**7,311,028**	6,066,841
Other assets	**1,562,325**	138,663
	83,223,380	80,464,191

24. TERM DEPOSITS

As at December 31, 2019, Islamic term deposits of SR 90 million (2018 – SR 35 million) were placed with a local bank with maturities of more than three months when purchased and earn commission income at an average rate 2.1% to 2.7%.

25. CASH AND CASH EQUIVALENTS

	2019 SR	2018 SR
Cash in hand	**490,616**	478,586
Bank balances	**149,133,410**	129,700,832
Short term deposit	**55,000,000**	-
	204,624,026	130,179,418

Cash and cash equivalents comprise cash at banks, cash on hand, short term Islamic term deposits, demand deposits and highly liquid investments with original maturity of three months or less, which are subject to an insignificant risk of changes in value.

Balances with banks are assessed to have low credit risk of default since these banks are highly regulated by the central banks of the respective countries. Accordingly, management of the Group estimates the loss allowance on balances with banks at the end of the reporting period at an amount equal to 12 month ECL. None of the balances with banks at the end of the reporting period are past due, and taking into account the historical default experience and the current credit ratings of the bank, the management of the Company have assessed that there is no impairment, and hence have not recorded any loss allowances on these balances.

26. SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is divided into 100 million shares (2018: 100 million shares) of SR 10 each.

The Board of Directors at the meeting held on 12 Jumada I 1439 H (corresponding to 29 January 2018) resolved to increase the share capital from SR 500 million to SR 1,000 million by capitalizing part of the retained earnings by distribution of one bonus share for every existing share held at the closing of trading on the day of extra ordinary general meeting held on 19 Ramadan 1439H, corresponding to June 3, 2018.

27. DIVIDENDS

The board of directors at their meeting held on 20 Jumada II 1440 H (corresponding to 25 February 2019) proposed a cash dividend of SR 1.75 per share amounting to SR 175 million for the year ended 31 December 2018, which was subsequently approved by shareholders in the General Assembly Meeting held on 17 Sha'ban, 1440 (corresponding to 22 April 2019).

28. 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.

29. NON CONTROLLING INTERESTS

The movements in non-controlling interests are as follows:

	2019 SR	2018 SR
January 1	**93,671,265**	82,186,211
IFRS 9 adjustment	**-**	576,201
IFRS 15 adjustment	**-**	2,526,547
Total comprehensive income for the year	**27,504,601**	24,062,306
Other movement in non-controlling assets	**(24,500,000)**	(15,680,000)
December 31	**96,675,866**	93,671,265

Material partly-owned subsidiary
Financial information of a subsidiary (Eastern Medical Services Company Limited) that have material non-controlling interests is provided below:

	2019 SR	2018 SR
Equity interest held by non-controlling interests	**49%**	49%
Accumulated balances of material non-controlling interest	**96,577,798**	93,554,851
Total comprehensive income allocated to material non-controlling Interest	**27,508,851**	24,057,054

29. NON CONTROLLING INTERESTS (CONTINUED)

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 and other comprehensive income

	2019 **SR**	2018 SR
Revenue	**215,396,173**	232,282,790
Cost of sales	**(108,171,757)**	(109,800,668)
Selling and distribution expenses	**(10,098,101)**	(32,052,060)
General and administration expenses	**(38,557,707)**	(37,275,185)
Other income	**1,011,903**	653,412
Profit before zakat	**59,580,511**	53,808,289
Zakat for the year	**(2,970,402)**	(4,645,696)
Net profit for the year	**56,610,109**	49,162,593
Other comprehensive loss for the year	**(469,596)**	(66,565)
Total comprehensive income for the year	**56,140,513**	49,096,028
Attributable to non-controlling interest:	**27,508,851**	24,057,054
Dividends to non-controlling interests	**24,500,000**	15,680,000

Summarised statement of financial position:

	2019 **SR**	2018 SR
Current assets	**169,238,448**	138,886,194
Non-current assets	**100,655,590**	96,822,025
Current liabilities	**(54,483,420)**	(26,796,740)
Non-current liabilities	**(18,313,072)**	(17,983,212)
Total Equity	**197,097,546**	190,928,267
Total equity attributable to:		
Shareholder of the parent company	**100,519,748**	97,373,416
Non-controlling interests	**96,577,798**	93,554,851

Summarised cash flow information for year ended

	2019 **SR**	2018 SR
Cash from operating activities	**105,344,372**	33,238,883
Cash used in investing activities	**(23,532,962)**	(3,490,424)
Cash used in financing activities	**(51,929,933)**	(33,929,932)
Net increase/(decrease) in the cash and cash equivalents	**29,881,477**	(4,181,473)

30. TERM LOANS

	Maturity	2019 SR	2018 SR
Current			
Medium term loans (a)	December 31, 2020	**112,534,240**	71,316,631
Loans from ministry of finance (b)	June 30, 2020	**7,876,873**	7,876,873
		120,411,113	79,193,504
Non-Current			
Medium term loans (a)	June 30, 2026	**505,847,748**	498,381,985
Loans from ministry of finance (b)	December 31, 2036	**95,951,723**	103,828,596
		601,799,471	602,210,581

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 1.15% 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.

c) The Group had SR 822 million of unutilized facilities available for drawdown from total facilities of SR 1,642 million (2018: SR 1,673.7 million).

Following are the combined aggregate amounts of future maturities of the term loans as at December 31 2019 & 2018:

	2019 SR	2018 SR
2019	**-**	79,193,504
2020	**120,411,113**	115,411,112
2021	**159,219,899**	138,553,232
2022	**165,123,300**	139,123,299
2023	**95,123,300**	69,123,300
2024 and onwards	**182,332,972**	139,999,638
	722,210,584	681,404,085

The Group is required to comply with certain covenant under the loan facility agreements mentioned above. A future breach of covenants may lead to renegotiation. The covenants are monitored on a monthly basis by management, in case of potential breach, actions are taken by management to ensure compliance. As of December 31, 2019, the Group was in compliance with financial covenants.

31. RETIREMENT BENEFIT OBLIGATIONS

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 lAS 19, management has carried out an exercise to assess the present value of its defined benefit obligations at December 31, 2019 in respect of employees' end-of-service benefits payable under relevant local regulations and contractual arrangements. The average duration of the defined benefit plan obligation at the end of the reporting period is 6.86 years (2018: 6.75 years).

31. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The main actuarial assumptions used to calculate the defined unfunded benefit obligation are as follows:

	2019	2018
	SR	SR
Discount rate	**2.80%**	4.25%
Salary increase rate	**3.05%**	4.50%

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

	2019	2018
	SR	SR
Present value of defined benefit obligations	**93,513,904**	78,928,443
Re-measurement losses on employees' defined benefit obligations	**3,629,076**	338,941
Balance as at December 31	**97,142,980**	79,267,384

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

	2019	2018
	SR	SR
Current service cost	**18,962,880**	17,276,030
Interest cost on employees' defined benefit obligations	**3,632,171**	2,263,909
	22,595,051	19,539,939

Movement in the present value of employees' retirement benefit obligations is as follows;

	2019	2018
	SR	SR
January 1	**79,267,384**	67,466,862
Current service cost	**18,962,880**	17,276,030
Interest cost	**3,632,171**	2,263,909
Re-measurement losses on employees' defined benefits obligations	**3,629,076**	338,941
Benefits paid	**(8,348,531)**	(8,078,358)
December 31	**97,142,980**	79,267,384

A quantitative sensitivity analysis for significant assumption on the defined benefit obligations as at December 31, 2019 is as shown below;

	2019	2018
	SR	SR
Future salary increase		
0.5% Increase	**93,691,395**	82,739,079
0.5% Decrease	**(100,342,969)**	(77,180,287)
Discount rate		
0.5% Increase	**100,317,283**	77,186,566
0.5% Decrease	**(93,683,797)**	(82,760,302)

31. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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:

	2019 **SR**	2018 SR
Year 1	**10,876,892**	6,148,012
Year 2	**18,626,389**	15,770,148
Year 3	**12,396,106**	8,471,902
Year 4	**13,668,068**	11,930,039
Year 5	**14,733,957**	11,930,039
Beyond 5 years	**82,336,053**	72,091,794

32. LEASE LIBILITIES

Analysed as:	**2019** **SR**
Current	**4,002,411**
Non-current	**33,972,152**
	37,974,563

Maturity analysis

	2019 **SR**
Year 1	**4,002,411**
Year 2	**3,904,930**
Year 3	**3,721,222**
Year 4	**3,546,157**
Year 5	**3,548,295**
Onwards	**19,251,548**
	37,974,563

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function. All lease obligations are denominated in local currency.

33. ACCOUNTS PAYABLE

	2019 **SR**	2018 SR
Trade payables	**194,964,237**	164,613,707
Due to related parties (note 36)	**8,025,893**	15,708,492
Retention payable	**8,914,585**	1,480,197
	211,904,715	181,802,396

The average credit period on purchases of goods from related parties is 2 months and other than related parties is 3 months. No interest is charged on the trade payables outstanding balance. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

34. ACCRUALS AND OTHER PAYABLES

	2019 **SR**	2018 SR
Accrued employee cost	**71,884,612**	61,208,176
Accrued management incentives	**33,839,129**	25,683,071
Accrued finance cost	**12,130,589**	6,341,135
Accrued material and services cost	**7,995,539**	10,969,732
Other payables	**8,592,088**	18,296,465
	134,441,957	122,498,579

35. REFUND LIABILITIES

Some contracts includes variable considerations such as volume discount, prompt payment discount and rejections. Management estimates variable consideration using the expected value method for rejections and single most likely amount method for prompt payments discount and volume discounts. Management applies one method consistently throughout the contract when estimating the effect of an uncertainty on an amount of variable consideration to which the Group will be entitled. Contract liabilities are created based on these estimates. In addition, management considers all the information (historical, current and forecast) that is reasonably available to the Group and identifies a reasonable number of possible consideration amounts.

Movement in provision for refund liability during the year is as follow;

	2019 **SR**	2018 SR
January 1	**144,388,551**	101,243,154
IFRS 15 adjustment	**-**	(52,245,814)
Reclassified from accounts receivables	**-**	120,551,568
Provision during the year	**233,289,837**	-
Written off during the year	**(143,624,205)**	(25,160,357)
December 31, 2019	**234,054,183**	144,388,551

During the first year of transition to IFRS 9 and IFRS 15, the Group updated the Day 1 ECL and IFRS 15 opening adjustments which was published in the interim condensed consolidated financial statements had been revised by transferring SR 120.5 million from allowance for receivable impairment to refund liability. As a result of this revision, the refund liability became SR 169.5 million and the allowance for receivable impairment became SR 32.5 million with the same impact of SR 15 million credited to opening retained earnings as at January 1, 2018. This revision was as a result of certain correction made to the underlying information that was used to estimate the rejection of claims from certain customers and ECL provision on trade receivables as at January 1, 2018.

36. RELATED PARTY TRANSACTIONS AND BALANCES

Balances and transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below;

Name	Relationship	Nature of Transaction	2019 SR	2018 SR
Advance Medical Project Company ("AMPC")	Associate	Revenue	**(2,974,548)**	(2,615,412)
		Purchases	**6,535,182**	6,253,548
		Other services	**(403,130)**	(623,219)
Al-Mouwasat International Company	Affiliate	Purchases	**25,096,811**	19,310,202
		Rent	**2,755,000**	2,781,800
		Expenses	**1,292,613**	1,273,744
		Other services	**(464,236)**	-
AdVision Media Solution	Affiliate	Advertisement services	**23,973,298**	19,955,852
Magrabi Hospitals & Centers Company Ltd.	Affiliate	Revenue	**(2,088,306)**	(1,945,745)
		Rent	**4,087,609**	4,477,990

The amounts due to related parties represents the following:

Due to related parties:

	2019 SR	2018 SR
AdVision Media Solution	**4,547,259**	9,593,714
Magrabi Hospitals & Centers Company Ltd.	**1,615,630**	3,570,325
Al-Mouwasat International Company	**1,603,797**	2,544,453
Advance Medical Project Company ("AMPC")	**259,207**	-
	8,025,893	15,708,492

Payable balances above are not subject to interest charges, and do not have specific repayments date.

Amounts due from and due to related parties as at December 31, 2019 disclosed in the financial statements principally include balances related to the above mentioned transactions.

Compensation of key management personnel
The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures:

	2019 SR	2018 SR
Salaries and allowances	**12,004,000**	9,711,000
Incentives and other benefits	**12,121,969**	10,442,661
	24,125,969	20,153,661

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends. Board of Directors' fee of SR 3.6 million (2018 SR 2.7 million) have been included as part of key management personnel remuneration.

37. CONTINGENCIES AND COMMITMENTS

Guarantees
The Group's bankers have given guarantees, on behalf of the Group, amounting to SR 0.97 million (2018: 0.67 million) mainly in respect of performance guarantees to customers.

Capital commitments
As of December 31, 2019, the Groups' capital commitments amounted to SR 269.2 million (2018: SR 300.4 million) relating to certain expansion projects.

The Group has outstanding letter of credits amounting to SR 50 million (2018: 21 million) as of December 31, 2019.

38. OPERATING LEASE ARRANGEMENTS

The Group has operating leases for rental of certain properties which generally have a term of 5 years. The rental charge for the year amounted to SR 0.5 million (2018: SR 4.3 million). At December 31, the Group had no outstanding commitments under non-cancelable operating leases for rental of properties, which fall due as follows;

Non-cancellable operating lease commitments

	2019	2018
	SR	SR
Not later than 1 year	**-**	5,068,414
Later than 1 year but not later than 5 years	**-**	5,375,565
	-	10,443,979

39. FINANCIAL INSTRUMENTS

The Group's principal financial liabilities comprise loans, lease liability, accounts payables, accrual and other 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.

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 December 31, 2019.

Commission 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.

39. FINANCIAL INSTRUMENTS (CONTINUED)

a) Market Risk (continued)

Commission risk (continued)
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 zakat is affected through the impact on floating rate borrowings, as follows:

	2019	2018
	SR	SR
Profit before zakat		
Increase by 50 points	**2,316,690**	2,848,493
Decrease by 50 points	**(2,316,690)**	(2,848,493)

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 Group did not perform any transactions of relative importance in currencies other than the Saudi Riyal, the US Dollar, As the Saudi Riyal is pegged to the US Dollars, balances in US Dollars are not considered to represent significant currency risk.

Commodity risk
The Group is exposed to the impact of market fluctuations of the prices of various inputs to cost of revenues 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.

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 Joss. The Group is exposed to credit risk on its cash and cash equivalents, term deposits and accounts receivables as follows:

	2019	2018
	SR	SR
Cash and cash equivalent	**204,624,026**	130,179,418
Term deposit	**90,000,000**	35,000,000
Accounts receivable	**717,583,249**	655,294,301
	1,012,207,275	820,473,719

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 Group1s 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 histo1ical 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.

39. FINANCIAL INSTRUMENTS (CONTINUED)

b) 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 term 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 Group's undiscounted financial liabilities at December 31, 2019, based on contractual payment dates and current market interest rates.

	Up to 1 year SR	1 to 5 years SR	Above 5 years SR	Total SR
December 31, 2019				
Accounts payable	**211,904,715**	**-**	**-**	**211,904,715**
Accruals and other payables	**134,441,957**	**-**	**-**	**134,441,957**
Refund liability	**234,054,183**	**-**	**-**	**234,054,183**
Lease liabilities	**4,200,000**	**21,930,000**	**23,475,000**	**49,605,000**
Term loans	**135,511,906**	**569,715,030**	**72,183,747**	**777,410,683**
	720,112,761	**591,645,030**	**95,658,747**	**1,407,416,538**
December 31, 2018				
Accounts payable	181,802,396	-	-	181,802,396
Accruals and other payables	122,498,579	-	-	122,498,579
Refund liability	144,388,551	-	-	144,388,551
Term loans	102,663,775	553,403,433	97,016,799	753,084,007
	551,353,301	553,403,433	97,016,799	1,201,773,533

c) Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and 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, 2019 and the year ended December 31, 2018. Capital comprises share capital, statutory reserve, retained earnings and other reserve and is measured at SR 1,955.51 million as at December 31, 2019 (2018: SR 1,712.88 million).

40. 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.

41. EVENT AFTER THE REPORTING PERIOD

There were no events subsequent to December 31, 2019 and occurring before the date of the approval of the financial statements report that are expected to have a significant impact on these financial statements.

42. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements of the Group as at December 31, 2019 were authorised for issue in accordance with the Board of Directors resolution on 13 Rajab 1441 H (corresponding to March 8, 2020).