

**MOUWASAT MEDICAL SERVICES COMPANY AND ITS
SUBSIDIARIES
(A Saudi Joint Stock Company)**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2015



**Building a better
working world**

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)**

Scope of audit:

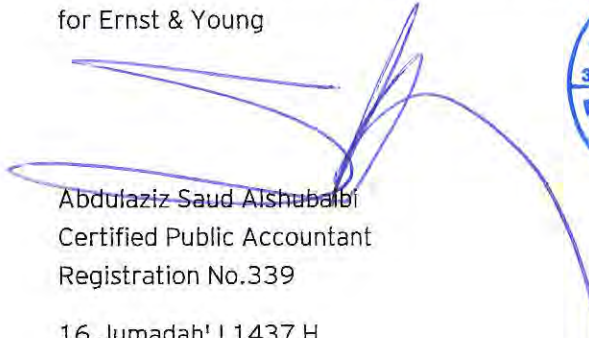
We have audited the accompanying consolidated balance sheet of Mouwasat Medical Services Company, A Saudi Joint Stock Company ("the Company") and its subsidiaries (collectively referred to as "the Group") as at 31 December 2015 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Company's board of directors and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion:

In our opinion, the consolidated financial statements taken as a whole:

- i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2015 and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young


Abdulaziz Saud Alshubaili
Certified Public Accountant
Registration No.339



16 Jumadah' I 1437 H
25 February 2016
Al-Khobar

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2015

	Note	2015 SR	2014 SR
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	81,002,809	181,565,236
Term deposit	5	150,000,000	100,000,000
Accounts receivable and prepayments	6	271,278,813	219,880,365
Inventories	7	107,529,613	75,806,237
TOTAL CURRENT ASSETS		609,811,235	577,251,838
NON-CURRENT ASSETS			
Investment in an associate	8	8,743,603	8,530,030
Property and equipment	10	1,212,212,035	1,082,496,297
Advances to contractors	11	23,308,370	15,222,744
Goodwill	12	16,371,000	16,371,000
Other intangible assets	13	1,053,382	685,452
TOTAL NON-CURRENT ASSETS		1,261,688,390	1,123,305,523
TOTAL ASSETS		1,871,499,625	1,700,557,361
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accruals	14	146,739,183	141,819,187
Short term loans	15	-	19,083,688
Current portion of term loans	16	120,881,091	110,948,758
Zakat provision	17	22,411,354	19,327,287
TOTAL CURRENT LIABILITIES		290,031,628	291,178,920
NON-CURRENT LIABILITIES			
Term loans	16	326,231,195	280,971,740
Employees' terminal benefits		50,849,918	40,837,948
TOTAL NON-CURRENT LIABILITIES		377,081,113	321,809,688
TOTAL LIABILITIES		667,112,741	612,988,608
SHAREHOLDERS' EQUITY			
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY			
Share capital	18	500,000,000	500,000,000
Statutory reserve		144,444,240	123,564,050
Proposed dividends	19	100,000,000	100,000,000
Retained earnings		390,202,507	303,680,802
		1,134,646,747	1,027,244,852
NON-CONTROLLING INTERESTS	21	69,740,137	60,323,901
TOTAL SHAREHOLDERS' EQUITY		1,204,386,884	1,087,568,753
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,871,499,625	1,700,557,361

The attached notes 1 to 31 form part of these consolidated financial statements.

Managing Director
 Mohammed S. Al Saleem

Authorized Board Representative
 Mohammed S. Al Saleem

Chief Finance Officer
 Mahmoud Soliman

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

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2015

	Note	2015 SR	2014 SR
REVENUE:			
Operating revenue, net		810,118,673	718,553,936
Sales		189,964,089	185,231,162
	25	<u>1,000,082,762</u>	<u>903,785,098</u>
DIRECT COSTS:			
Cost of operations		(416,942,086)	(356,020,940)
Cost of sales		(136,335,221)	(130,590,987)
		<u>(553,277,307)</u>	<u>(486,611,927)</u>
GROSS PROFIT	25	<u>446,805,455</u>	<u>417,173,171</u>
EXPENSES			
Selling and distribution	22	(93,769,345)	(79,284,738)
General and administration	23	(117,475,255)	(103,941,645)
Amortization of other intangible assets	13	(657,655)	(780,752)
		<u>(211,902,255)</u>	<u>(184,007,135)</u>
INCOME FROM MAIN OPERATIONS		<u>234,903,200</u>	<u>233,166,036</u>
Share in results of an associate	8	3,323,055	3,052,172
Other income	24	8,364,900	32,326,889
Financial charges		(7,389,052)	(1,072,719)
INCOME BEFORE ZAKAT AND NON-CONTROLLING INTERESTS		<u>239,202,103</u>	<u>267,472,378</u>
Non-controlling interests	21	(14,316,236)	(10,556,267)
INCOME BEFORE ZAKAT		<u>224,885,867</u>	<u>256,916,111</u>
Zakat	17	(16,083,972)	(16,797,654)
NET INCOME FOR THE YEAR		<u>208,801,895</u>	<u>240,118,457</u>
EARNING PER SHARE:			
From main operations	20	<u>4.70</u>	<u>4.66</u>
From net income	20	<u>4.18</u>	<u>4.80</u>
Weighted average number of outstanding shares	18	<u>50,000,000</u>	<u>50,000,000</u>

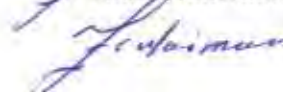
Managing Director
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Chief Finance Officer
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The attached notes | to 3| form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	2015 SR	2014 SR
OPERATING ACTIVITIES		
Income before zakat and non-controlling interests	239,202,103	267,472,378
Adjustments for:		
Depreciation	53,671,427	41,611,473
Amortization of other intangible assets	657,655	780,752
Share in results of an associate	(3,323,055)	(3,052,172)
Employees' terminal benefits, net	10,011,970	5,071,192
Financial charges	7,389,052	1,072,719
Gain on disposals of property and equipment	(288,985)	(24,464,919)
	<u>307,320,167</u>	<u>288,491,423</u>
Changes in operating assets and liabilities:		
Accounts receivable and prepayments	(51,398,448)	13,542,956
Inventories	(31,723,376)	(8,592,131)
Accounts payable and accruals	3,519,996	6,786,055
Cash from operations	<u>227,718,339</u>	<u>300,228,303</u>
Financial charges paid	(7,389,052)	(1,072,719)
Zakat paid	(12,999,905)	(13,233,259)
Net cash from operating activities	<u>207,329,382</u>	<u>285,922,325</u>
INVESTING ACTIVITIES		
Term deposit	(50,000,000)	-
Purchase of property and equipment	(168,414,991)	(276,666,978)
Proceeds from disposal of property and equipment	539,555	28,737,847
Additions to other intangible assets	(1,025,585)	(428,135)
Dividends received from an associate	3,109,482	2,585,684
Advances to contractors	(23,308,370)	1,560,445
Net cash used in investing activities	<u>(239,099,909)</u>	<u>(244,211,137)</u>
FINANCING ACTIVITIES		
Proceeds from short term loans	-	15,532,197
Repayments of short term loans	(1,907,525)	(13,316,468)
Proceeds from term loans	148,964,408	157,923,296
Repayments of term loans	(110,948,783)	(90,725,965)
Dividends paid	(100,000,000)	(100,000,000)
Movement in non-controlling interests	(4,900,000)	(9,800,000)
Net cash used in financing activities	<u>(68,791,900)</u>	<u>(40,386,940)</u>
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	<u>(100,562,427)</u>	<u>1,324,248</u>
Cash and cash equivalents at the beginning of the year	<u>181,565,236</u>	<u>180,240,988</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>81,002,809</u>	<u>181,565,236</u>
NON-CASH TRANSACTIONS:		
Board of directors' remuneration	1,400,000	1,400,000
Transfer from short term loans to term loans	17,176,163	-
Transfer from advances to contractor to construction work in progress (note 11)	<u>15,222,744</u>	<u>-</u>

The attached notes 1 to 31 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended 31 December 2015

EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY

	<i>Share capital</i> SR	<i>Statutory</i> <i>reserve</i> SR	<i>Retained</i> <i>earnings</i> SR	<i>Proposed</i> <i>dividends</i> SR	<i>Total</i> SR
Balance at 31 December 2013	500,000,000	99,552,204	188,974,191	100,000,000	888,526,395
Net income for the year	-	-	240,118,457	-	240,118,457
Transfer to statutory reserve	-	24,011,846	(24,011,846)	-	-
Dividends (note 19)	-	-	-	(100,000,000)	(100,000,000)
Proposed dividends (note 19)	-	-	(100,000,000)	100,000,000	-
Board of directors' remuneration	-	-	(1,400,000)	-	(1,400,000)
Balance at 31 December 2014	500,000,000	123,564,050	303,680,802	100,000,000	1,027,244,852
Net income for the year	-	-	208,801,895	-	208,801,895
Transfer to statutory reserve	-	20,880,190	(20,880,190)	-	-
Dividends (note 19)	-	-	-	(100,000,000)	(100,000,000)
Proposed dividends (note 19)	-	-	(100,000,000)	100,000,000	-
Board of directors' remuneration	-	-	(1,400,000)	-	(1,400,000)
Balance at 31 December 2015	500,000,000	144,444,240	390,202,507	100,000,000	1,134,646,747

Managing Director
 Mohammed S. Al Saleem



Authorized Board Representative
 Mohammed S. Al Saleem



Chief Finance Officer
 Mahmoud Soliman



The attached notes 1 to 31 form part of these consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

1 ACTIVITIES

Mouwasat Medical Services Company ("the Company") is registered in Saudi Arabia under Commercial Registration number 2050032029 dated 12 Ramadan 1417H (corresponding to 22 January 1997). The Company was converted into a Saudi Joint Stock Company in accordance with Ministerial Resolution No. 1880 dated 4 Dhu al Hijja 1426 (corresponding to 4 January 2006).

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

Branch Commercial registration number

number	Date	Location
2050032029	12/09/1417	Dammam
2050086573	27/11/1433	Dammam
2055004626	09/03/1421	Jubail
4650029967	06/05/1421	Madina
1010295838	09/11/1431	Riyadh
2053017288	20/12/1427	Qatif
2252030410	23/10/1424	Al Ahsa
2050046891	18/09/1425	Dammam
2055006727	19/09/1425	Jubail
2252037299	27/04/1429	Al Ahsa
4650030759	11/11/1421	Madina
2051032510	27/03/1427	Khobar
2053018168	14/08/1428	Qatif

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

<u>Name of the entity</u>	<u>Country of incorporation</u>	<u>Percentage of ownership</u>
Eastern Medical Services Company Limited	Saudi Arabia	51%
Specialized Medical Clinic Company Limited	Saudi Arabia	95%

Eastern Medical Services Company Limited is a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration number 2051023824 dated 10 Ramadan 1420 H (corresponding to 17 December 1999). The company is engaged in construction and operation of hospitals, dispensaries and special clinics.

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

Mouwasat Medical Services Company and its Subsidiaries

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

2 BASIS OF PREPERATION

These consolidated financial statements include assets, liabilities and the results of the operations of the Company and its subsidiaries as disclosed in note (1) above. A subsidiary company is that in which the Group has, directly or indirectly, long term investment comprising an interest in the voting capital which it exerts control. A subsidiary company is consolidated from the date on which the Group obtains control until the date that control ceases. The consolidated financial statements are prepared on the basis of the individual financial statements of the Company and the financial statements of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets that are not held by the Group and are presented separately in the consolidated statement of income and within shareholders' equity in the consolidated balance sheet, separately from shareholders' equity attributable to the Company.

3 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

Accounting convention

The consolidated financial statements are prepared under the historical cost convention.

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period.

Cash and cash equivalents

Cash and cash equivalents consists of bank balances, cash on hand and murabaha deposits that are readily convertible into known amounts of cash and have a maturity period of three months or less when purchased, which are subject to an insignificant risk of change in value.

Accounts receivable

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Inventories

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

Investment in an associate

Investment in an associate is accounted for using equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in an associate is carried in the consolidated balance sheet at cost adjusted by the changes in the Group's share of net assets of the associate. The consolidated statement of income reflects the share in the results of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any change and discloses this, when applicable, in the consolidated statement of changes in shareholder's equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of interest in the associate.

Mouwasat Medical Services Company and its Subsidiaries

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment/depreciation

Property and equipment are initially recorded at cost and are stated at cost less accumulated depreciation and any impairment in value. Freehold land and capital working in progress are not depreciated. The cost of other property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

Expenditure for repair and maintenance are charged to income as incurred. Improvements that increase the value or the materially extend the useful life of the related assets are capitalised.

Goodwill

Goodwill is measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity. Following initial recognition, the goodwill is measured at cost less any accumulated impairment losses.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill at each reporting date.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the consolidated statement of income.

Other intangible assets

Costs which have a long term future benefits are treated as other intangible assets and are amortised over the estimated period of benefit.

Impairment of non-current assets

The carrying values of non-current assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the non-current assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use. The excess of carrying value over the estimated recoverable amount is charged to the consolidated statement of income.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Group.

Provision

Provision is recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

Zakat

Zakat is provided for the Company and its subsidiaries separately in accordance with Saudi Arabian fiscal regulations. The provision is charged to the consolidated statement of income. Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which assessment is finalized.

Employees' terminal benefits

Provision is made for amounts payable related to the accumulated periods of service at the consolidated balance sheet date in accordance with the employees' contracts of employment.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue

Operating revenue

Operating revenue represents the invoiced value of services rendered by the Group to the patients and is recognized, net of discount and finalized rejections, when services are performed.

Sales

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

Commission income on deposits and rental income on investment properties are recognised on an accrual basis.

Operating lease

Operating lease payments are recognised as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Expenses

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

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals (SR) at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the consolidated balance sheet date. All differences are taken to consolidated statement of income.

Borrowing cost

Borrowing costs that are directly attributable to the construction of an asset are capitalised up to stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the consolidated statement of income.

Earnings per share

Earnings per share from main operations is calculated by dividing income from main operations for the year by the weighted average of number of outstanding shares during the year.

Earnings per share from net income is calculated by dividing the net income for the year by the weighted average number of outstanding shares during the year.

Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments. Because the Group carries out its activities entirely in the Kingdom of Saudi Arabia, reporting is provided by business segment only.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

4 CASH AND CASH EQUIVALENTS

	<i>2015</i>	<i>2014</i>
	<i>SR</i>	<i>SR</i>
Bank balances	80,385,956	111,061,519
Murabaha deposits	-	70,000,000
Cash in hand	616,853	503,717
	<u>81,002,809</u>	<u>181,565,236</u>

Murabaha deposit is placed with a local bank with maturities of less than three months when purchase and earn commission income at an average rate 1% (2014: 1%).

5 TERM DEPOSIT

Term deposit is placed with a local bank with maturities of more than three months when purchase and earn commission income at an average rate 1.05% to 1.1% (2014: 1%)

6 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<i>2015</i>	<i>2014</i>
	<i>SR</i>	<i>SR</i>
Accounts receivable, net	203,529,754	168,958,681
Retentions receivable	27,198,012	18,008,112
Prepaid expenses	15,267,956	14,395,365
Advances to suppliers	13,155,319	5,632,292
Amounts due from related parties (note 9)	6,352,818	5,694,427
Accrued income	-	250,274
Others	5,774,954	6,941,214
	<u>271,278,813</u>	<u>219,880,365</u>

At 31 December 2015, accounts receivable at nominal value of SR 66,790,159 (2014: SR 63,208,868) were impaired. Movements in the allowance for doubtful debts were as follows:

	<i>2015</i>	<i>2014</i>
	<i>SR</i>	<i>SR</i>
At the beginning of the year	63,208,868	51,312,420
Provided during the year	121,432,421	113,804,923
Written off	(117,851,130)	(101,908,475)
	<u>66,790,159</u>	<u>63,208,868</u>

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority are, therefore, unsecured.

7 INVENTORIES

	<i>2015</i>	<i>2014</i>
	<i>SR</i>	<i>SR</i>
Pharmaceuticals and cosmetic materials	52,342,255	26,386,427
Surgical and consumable tools	50,294,321	41,208,642
Spare parts and consumables	4,893,037	8,211,168
	<u>107,529,613</u>	<u>75,806,237</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

8 INVESTMENT IN AN ASSOCIATE

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

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

	<i>2015</i>	<i>2014</i>
	<i>SR</i>	<i>SR</i>
At the beginning of the year	8,530,030	8,063,542
Share in results	3,323,055	3,052,172
Dividends	(3,109,482)	(2,585,684)
	<u>8,743,603</u>	<u>8,530,030</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

9 RELATED PARTIES' TRANSACTIONS AND BALANCES

Related parties represent associated companies, shareholders, directors, affiliates and key management personnel of the Group, and entities controlled or significantly influenced by such parties. The following are the details of major related parties transactions occurred during the year and resulting balances at year end:

<i>Related party</i>	<i>Relationship</i>	<i>Nature of transactions</i>	<i>Amounts of transaction</i>		<i>Balance</i>	
			<i>2015</i> <i>SR</i>	<i>2014</i> <i>SR</i>	<i>2015</i> <i>SR</i>	<i>2014</i> <i>SR</i>
<i>a) Amounts due from related parties shown in note 6:</i>						
Advance Medical Project Company ("AMPC")	Associate	Revenue	9,005,650	9,909,578		
		Other services (note 24)	423,109	431,525	4,562,106	3,558,608
Other	Affiliates	Other	703,889	971,924	1,790,712	2,135,819
					6,352,818	5,694,427
<i>b) Amounts due to related parties shown in note 14:</i>						
Al-Mouwasat International Company	Affiliate	Purchases and services	28,839,061	26,412,914	4,007,829	4,099,790
Magrabi Hospitals & Centers Company Ltd.	Affiliate	Expenses	3,842,537	-	359,969	1,095,141
					4,367,798	5,194,931

During the year the Group incurred management remuneration of SR 12.3 million (2014: SR 12.7 million).
Prices and terms of payment of the above transactions are approved by the Group's management.

Mouwasat Medical Services Company and its Subsidiaries

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (continued)

At 31 December 2015

10 PROPERTY AND EQUIPMENT

The estimated useful lives of the assets for the calculation of depreciation are as follows:

<i>Buildings</i>	33 years
<i>Building system, fixtures and furniture</i>	3 to 10 years
<i>Medical equipment and tools</i>	4 to 13 years
<i>Motor vehicles</i>	4 years
<i>IT hardware and software</i>	10 years

	<i>Plots of lands</i>	<i>Buildings</i>	<i>Building system, fixtures and furniture</i>	<i>Medical equipment and tools</i>	<i>Motor vehicles</i>	<i>IT hardware and software</i>	<i>Construction work in progress</i>	<i>Total 2015</i>	<i>Total 2014</i>
	SR	SR	SR	SR	SR	SR	SR	SR	SR
<i>Cost:</i>									
At the beginning of the year	231,331,080	545,435,708	259,019,163	390,455,243	24,622,387	11,817,616	72,082,679	1,534,763,876	1,274,292,793
Additions	14,586,000	257,444	13,672,045	46,507,445	4,385,738	3,557,594	100,671,469	183,637,735	275,106,533
Transfers	37,651,516	37,778	59,644	-	-	-	(37,748,938)	-	-
Disposals	-	-	(459,093)	(4,289,124)	(1,961,256)	(35,785)	-	(6,745,258)	(14,408,090)
Adjustments	-	-	-	-	-	-	-	-	(227,360)
At the end of the year	283,568,596	545,730,930	272,291,759	432,673,564	27,046,869	15,339,425	135,005,210	1,711,656,353	1,534,763,876
<i>Accumulated Depreciation:</i>									
At the beginning of the year	-	130,695,905	104,445,754	194,997,344	16,684,508	5,444,068	-	452,267,579	421,018,628
Charge for the year	-	13,375,216	14,095,316	21,774,974	3,386,089	1,039,832	-	53,671,427	41,611,473
Disposals	-	-	(456,630)	(4,286,965)	(1,715,308)	(35,785)	-	(6,494,688)	(10,135,162)
Adjustments	-	-	-	-	-	-	-	-	(227,360)
At the end of the year	-	144,071,121	118,084,440	212,485,353	18,355,289	6,448,115	-	499,444,318	452,267,579
<i>Net book amounts:</i>									
At 31 December 2015	283,568,596	401,659,809	154,207,319	220,188,211	8,691,580	8,891,310	135,005,210	1,212,212,035	
At 31 December 2014	231,331,080	414,739,803	154,573,409	195,457,899	7,937,879	6,373,548	72,082,679		1,082,496,297

Construction work in progress represents costs incurred to construct new hospitals in Alkhobar city and expanding existing hospitals in Dammam, Madinah and Jubail during 2015. During the year, borrowing cost of SR 2.8 million (2014: SR 1.44 million) were capitalized.

At 31 December 2015 plots of land amounting to SR 43.5 million (2014: SR 43.5 million) are pledged as security against term loans (note 16).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

11 ADVANCE TO CONTRACTOR

The movement in advance to contractor was as follows:

	2015 SR	2014 SR
At the beginning of the year	15,222,744	-
Transfer to construction work in progress (note 10)	(15,222,744)	-
Paid during the year	23,308,370	15,222,744
At the end of the year	<u>23,308,370</u>	<u>15,222,744</u>

12 GOODWILL

On 24 July 2006, the Group acquired 51% of the voting shares of Eastern Medical Services Company Limited, an unlisted company registered in the Kingdom of Saudi Arabia ("EMS"). The Group performed its annual impairment test in December 2015 and compared carrying value to their estimated recoverable amount based on appropriate method. The recoverable amount of the EMS is determined based on a value in use calculation using cash flow projection from financial budget approved by senior management covering a five-year period. As a result of the analysis, the management did not identify an impairment loss.

13 OTHER INTANGIBLE ASSETS

	2015 SR	2014 SR
<i>Cost:</i>		
At the beginning of the year	7,165,908	6,737,773
Additions	1,025,585	428,135
Written off	(5,315,633)	-
	<u>2,875,860</u>	<u>7,165,908</u>
<i>Accumulated amortization:</i>		
At the beginning of the year	6,480,456	5,699,704
Charge for the year	657,655	780,752
Written off	(5,315,633)	-
	<u>1,822,478</u>	<u>6,480,456</u>
<i>Net book value</i>		
31 December	<u>1,053,382</u>	<u>685,452</u>

Other intangible assets represent the license of certain hospitals and dispensaries and are amortized over a period of 3 years.

14 ACCOUNTS PAYABLE AND ACCRUALS

	2015 SR	2014 SR
Accounts payable	74,029,628	66,039,068
Accrued expenses	41,688,602	49,000,828
Retentions payable	11,167,938	11,040,131
Advances from customers	6,604,380	-
Amounts due to related parties (note 9)	4,367,798	5,194,931
Others	8,880,837	10,544,229
	<u>146,739,183</u>	<u>141,819,187</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

15 SHORT TERM LOANS

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

16 TERM LOANS

	<i>2015</i>	<i>2014</i>
	<i>SR</i>	<i>SR</i>
Ministry of finance	123,717,688	126,290,808
Commercial banks	<u>323,394,598</u>	<u>265,629,690</u>
	<u>447,112,286</u>	<u>391,920,498</u>
Less: current portion	<u>(120,881,091)</u>	<u>(110,948,758)</u>
Non-current portion	<u><u>326,231,195</u></u>	<u><u>280,971,740</u></u>

Ministry of finance loans:

The Group obtained loans facility of SR 146.2 million from Ministry of finance for expansions and building new hospitals. The loans are secured by a mortgage on the Group's lands (note 10) and are repayable on equal annual installments. These loans do not carry any financial charges.

Commercial banks loans:

The Group also obtained loans facilities of SR 994 from various commercial banks. These loans are secured by promissory notes and assignment of insurance and contract proceeds. The facilities are subject to commission at SIBOR plus 1.5% to 2%.

The Group is required to comply with certain covenant under the loan facility agreement mention above.

The following are the combined agreement amounts of next years' maturities of the term loan balances as at 31 December

	<i>SR</i>
2016	<u>120,881,091</u>
2017	<u>103,655,724</u>
2018	<u>60,811,442</u>
2019	<u>22,267,172</u>
2020	<u>20,080,277</u>
2021 to 2036	<u>119,416,580</u>
	<u><u>447,112,286</u></u>

17 ZAKAT

Charge for the year

	<i>2015</i>	<i>2014</i>
	<i>SR</i>	<i>SR</i>
Provision for the year	16,083,972	19,292,748
Adjustment related to previous year	-	(2,495,094)
	<u>16,083,972</u>	<u>16,797,654</u>

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

17 ZAKAT (continued)

Movement in provision

The movement in zakat provision was as follows:

	2015 SR	2014 SR
At the beginning of the year	19,327,287	15,762,892
Charge for the year	16,083,972	16,797,654
Paid during the year	(12,999,905)	(13,233,259)
At the end of the year	<u>22,411,354</u>	<u>19,327,287</u>

Status of assessments

Zakat returns of the Company have been agreed with the Department of Zakat and Income Tax ("the DZIT") up to 2012. The zakat assessments for the years 2013 and 2014 have been filed with the DZIT. However, the final assessments have not yet been raised by DZIT.

Eastern Medical Services Company Limited

Zakat returns have been agreed with the DZIT up to 2012. The zakat assessments for the years 2013 and 2014 have been filed with the DZIT. However, the final assessments have not yet been raised by DZIT.

Specialized Medical Clinic Company Limited

Zakat returns have been agreed with the DZIT up to 2008. The zakat assessments for the years from 2009 to 2014 have been filed with the DZIT. However, the final assessments have not yet been raised by DZIT.

18 SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is divided into 50 million shares (2014: 50 million shares) of SR 10 each.

19 DIVIDENDS

The board of directors at their meeting held on 7 Rabi'II 1436H (corresponding to 27 January 2015) proposed a cash dividend of SR 2.0 per share amounting to SR 100 million for the year ended 31 December 2014 which was subsequently approved by the shareholders in the General Assembly Meeting held on 12 Jumada'II 1436H. (corresponding to 1 April 2015) (31 December 2014: the Board of Directors at their meeting held on 13 Safar 1435H (corresponding to 16 December 2013) proposed a cash dividend of SR 2.0 per share amounting to SR 100 million for the year ended 31 December 2013 which was subsequently approved by the shareholders in the General Assembly Meeting held on 2 Jamadah'II 1435H (corresponding to 2 April 2014)).

Further, the board of directors at their meeting held on 5 Rabi'II 1437H (corresponding to 25 January 2016) proposed a cash dividend of SR 2.0 per share amounting to SR 100 million for the year ended 31 December 2015 for approval of the General Assembly Meeting.

20 EARNING PER SHARE

Earnings per share from main operations is calculated by dividing income from main operations for the year by the weighted average of number of outstanding shares during the year.

Earnings per share from net income is calculated by dividing the net income for the year by the weighted average number of outstanding shares during the year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

21 NON-CONTROLLING INTERESTS

Non-controlling interests represent 49% in Eastern medical services company and 5% in Special Medical Clinics

The movements in non-controlling interests are as follows:

	<i>2015</i>	<i>2014</i>
	<i>SR</i>	<i>SR</i>
At the beginning of the year	60,323,901	59,567,634
Share in results	14,316,236	10,556,267
Net movement	(4,900,000)	(9,800,000)
At the end of the year	<u>69,740,137</u>	<u>60,323,901</u>

22 SELLING AND DISTRIBUTION EXPENSES

	<i>2015</i>	<i>2014</i>
	<i>SR</i>	<i>SR</i>
Allowance for doubtful debts	52,116,848	47,701,670
Employees' costs	33,907,983	28,453,864
Advertising	7,744,514	3,129,204
	<u>93,769,345</u>	<u>79,284,738</u>

23 GENERAL AND ADMINISTRATION EXPENSES

	<i>2015</i>	<i>2014</i>
	<i>SR</i>	<i>SR</i>
Employees's costs	69,100,137	56,907,728
Depreciation	10,353,175	8,324,626
Management bonus (note 9)	7,933,480	8,359,187
Maintenance and repair	2,325,814	3,886,752
Executives salaries (note 9)	2,985,000	2,985,000
Support services	3,694,624	2,654,646
Rent	2,568,805	2,421,847
Utilities	3,887,993	2,155,543
Others	14,626,227	16,246,316
	<u>117,475,255</u>	<u>103,941,645</u>

24 OTHER INCOME

	<i>2015</i>	<i>2014</i>
	<i>SR</i>	<i>SR</i>
Rental income	2,051,894	853,525
Services provided to an associate (note 9)	423,109	431,525
Gain/(loss) on sale of property and equipment	288,985	24,464,919
Others	5,600,912	6,576,920
	<u>8,364,900</u>	<u>32,326,889</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
 At 31 December 2015

25 SEGMENTAL INFORMATION

Business segments:

Consistent with the Group's internal reporting process, business segments have been approved by management in respect of the Group's activities. Transactions between the business segments are reported at cost. The Group's revenue, gross profit, property and equipment, total assets and total liabilities, by business segment, are as follows:

	<i>In-patient</i>	<i>Out-patient</i>	<i>Pharmaceuticals</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
2015				
<i>For the year ended 31 December</i>				
Revenue	353,157,105	456,961,569	189,964,088	1,000,082,762
Gross profit	171,398,476	221,778,112	53,628,867	446,805,455
 <i>As at 31 December</i>				
Property and equipment	569,739,656	448,518,453	193,953,926	1,212,212,035
Total assets	879,604,824	692,454,861	299,439,940	1,871,499,625
Total liabilities	306,872,298	246,832,066	113,408,377	667,112,741
 2014				
<i>For the year ended 31 December</i>				
Revenue	312,955,667	405,598,269	185,231,162	903,785,098
Gross profit	158,229,774	204,303,222	54,640,175	417,173,171
 <i>As at 31 December</i>				
Property and equipment	508,773,259	400,523,630	173,199,408	1,082,496,297
Total assets	799,261,960	629,206,224	272,089,177	1,700,557,361
Total liabilities	281,975,161	226,806,108	104,207,339	612,988,608

Geographical segments:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

26 CAPITAL COMMITMENTS

The board of directors have authorized future capital expenditure amounting to SR 302.2 million (2014: SR 207.3 million) relating to certain expansion projects.

27 CONTINGENT LIABILITIES

The Group's bankers have given guarantees, on behalf of the Group, amounting to SR 14 million (2014: SR 2 million) mainly in respect of performance guarantees to customers.

28 OPERATING LEASE

The Group has operating leases for rental of certain properties which generally have a term of 21 years (2014: 21 years). The rental charge for the year amounted to SR 4.5 million (2014: SR 4.8 million).

Future rental commitments at the consolidated balance sheet date under these operating leases are as follows:

	<i>2015</i>	<i>2014</i>
	<i>SR</i>	<i>SR</i>
Within one year	4,518,880	4,637,516
For next five years	13,402,444	20,837,991
	<u>17,921,324</u>	<u>25,475,507</u>

29 RISK MANAGEMENT

Commission rate risk

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market commission rates. The Group is subject to commission rate risk on its commission bearing deposits, short term and term loans. The Group manages its exposure to commission rate risk by continuously monitoring movements in commission rates.

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks and with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and ensuring close follow-ups. The Company provides services to a large number of customers. Its 5 largest customers account for 68 % of outstanding trade accounts receivable at 31 December 2015 (2014: 67 %).

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 sell a financial asset quickly at an amount close to its fair value. The Group limits its liquidity risk by ensuring bank facilities are available. The Group's terms of sales require amounts to be paid within 60 to 90 days of the date of sale. Trade payables are normally settled within 60 to 90 days of the date of purchase.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

29 RISK MANAGEMENT (continued)

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars during the year. As Saudi Riyal is pegged to US Dollar, balances in US Dollars are not considered to represent significant currency risk.

30 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Group's financial assets consist of bank balances, cash, accounts receivable and term deposits. Its financial liabilities consist of accounts payable, short term and term loans.

The fair values of financial instruments are not materially different from their carrying values at the consolidated balance sheet date.

31 COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform with the presentation in the current year.