

MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2018**

MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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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, 2018, 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 financial position of the Group as of December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matters	How our audit addressed the Key Audit Matters
<p>The Group adopted IFRS 15 "Revenue from Contracts with Customers" with effect from January 1, 2018.</p> <p>The adoption of new standard involved the exercise of a number of key judgements and estimates around the identification of transaction price as a result of variable consideration included therein.</p> <p>As at 31 December 2018, the closing balance of refund liabilities amounted to SR 144.4 million (2017: nil) and the estimated amount of variable consideration such as rejections, volume discount and prompt payment discounts for the year 2018 amounted to SR 131.7 million (2017: nil).</p> <p>Certain contracts with customers includes variable consideration as volume discount, prompt payment discount and rejection of certain services provided. Management estimates uncertainty on the amount of variable consideration by using probability weighted amounts based on historical, current and forecast information and creates refund liabilities.</p> <p>We considered this as a key audit matter since the estimation of the variable consideration involves significant judgement and estimates in determining the amounts.</p> <p>Refer to note 3 and 5 to the consolidated financial statements for accounting policies and the relevant detailed disclosures respectively.</p>	<p>We developed an understanding of relevant business process and performed the following procedures:</p> <ul style="list-style-type: none"> i) Tested relevant controls established by management to ensure appropriate recognition of revenue; ii) Assessed the appropriateness of probability weighted methods used by the management to estimate the variable considerations such as volume discounts, prompt payment discounts and rejections; iii) Reviewed reconciliation of customers' rejections agreed between the Group and its various customers and assessing whether the latest data were used by the Group in developing the estimate of rejection rate; iv) Tested the accuracy and completeness of underlying data to assess whether there was appropriate capture of gross revenue, agreed volume discount rates, prompt payment discounts for selected customers; v) Involved our accounting specialists to review the methodology used in estimating the variable consideration and to assess the appropriateness of judgments used by management; and vi) We also compared this against accepted best practice. <p>We also reviewed the adequacy of the Group's disclosures included in Note 3, 4, 5 and 6 to the accompanying consolidated financial statements in relation to the implementation of the new accounting standard.</p>

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matters	How our audit addressed the Key Audit Matters
<p>First time adoption of IFRS 9 Financial instruments.</p> <p>The Group adopted IFRS 9 "Financial Instruments" with effect from January 1, 2018 and this new standard supersedes the requirements of IAS 39 "Financial Instruments - Recognition and Measurement".</p> <p>IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting and a new impairment model for financial assets. Management has determined that the most significant Impact of the new standard on the Groups financial statements relates to the calculation of the allowance for the impairment of accounts receivables.</p> <p>As at December 31, 2018 the carrying value of accounts receivables amounted to SR 695.1 million (2017: SR 462.1 million) and the allowance for impairment of accounts receivables amounted to SR 139.5 million (2017: SR 116.1 million).</p> <p>The Group assesses at each reporting date whether the financial assets carried at amortised cost are credit-impaired. The Group's management has applied a simplified expected credit loss ("ECL") model to determine the allowance for impairment of trade receivables. The ECL model involves the use of various assumptions, macro-economic factors and study of historical trends relating to the Group's history of collection of trade receivables.</p> <p>We considered this as key audit matter due to the judgements and estimates involved in the application of the expected credit loss model.</p> <p>Refer to note 3 and 5 to the consolidated financial statements for accounting policies and the relevant detailed disclosures respectively</p>	<p>We developed an understanding of the relevant business process and performed the following procedures:</p> <ul style="list-style-type: none"> i) Specifically considered the validity of management's conclusion that the main area of impact was in respect of trade receivables impairment, using our experience and knowledge of similar entities; ii) Verified whether the ECL model developed by management is consistent with the requirements of IFRS 9; iii) Tested the accuracy and completeness of underlying data used in the model and the arithmetical accuracy of the computation of ECL; iv) Tested key assumptions and judgments, such as those used to calculate the likelihood of default and loss on default by comparing to historical data. We also considered the appropriateness of forward looking factors (macroeconomic factors) used to determine expected credit losses; and v) Involved our accounting specialists to review the methodology used in the ECL model. <p>We also reviewed the adequacy of the Group's disclosures included in note 5 and 20 to the accompanying consolidated financial statements.</p>

INDEPENDENT AUDITOR'S REPORT (CONTINUED)**Other Matter**

The consolidated financial statements of the Group for the year ended December 31, 2017, were audited by another auditor who expressed an unmodified opinion on these statements on 24 Jumada II 1439H (corresponding to March 12, 2018).

Other Information included in the Groups' 2018 Annual Report

Other information consist of the information included in the Group's 2018 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. The annual report is expected to be made available to us after the date of auditor's 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 Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA 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, i.e. the Board of Directors, are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 (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 financial statements, including the disclosures, and whether the 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



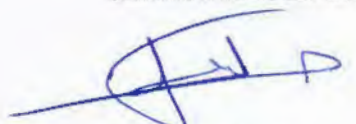
Abdul Rahman S. Al-Suwayegh
License No. 461
26 Jumada II, 1440H
March 3, 2019



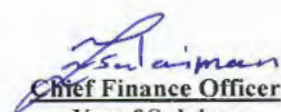
MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

	Notes	2018 SR	2017 SR
Revenue			
Operating revenue, net	5,6	1,441,677,488	1,289,587,690
Sales	5,6	235,341,262	217,550,186
		<u>1,677,018,750</u>	<u>1,507,137,876</u>
Cost			
Cost of operations	8	(734,288,563)	(640,736,080)
Cost of sales		<u>(169,231,513)</u>	<u>(154,234,479)</u>
Gross profit		<u>773,498,674</u>	<u>712,167,317</u>
Expenses			
Selling and distribution	9	(154,229,169)	(151,174,000)
General and administration	10	<u>(215,208,833)</u>	<u>(189,467,013)</u>
Operating profit		<u>404,060,672</u>	<u>371,526,304</u>
Share of results of an associate	18	3,452,167	4,118,144
Other income, net	11	7,317,887	8,795,352
Finance cost		<u>(6,139,230)</u>	<u>(4,892,433)</u>
Profit before zakat		<u>408,691,496</u>	<u>379,547,367</u>
Zakat	12	<u>(24,389,837)</u>	<u>(23,325,552)</u>
PROFIT FOR THE YEAR		<u>384,301,659</u>	<u>356,221,815</u>
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent period:</i>			
Re-measurement (loss)/gains on employee's retirement benefit obligations		<u>(338,941)</u>	<u>1,738,935</u>
Other comprehensive (loss)/income for the year		<u>(338,941)</u>	<u>1,738,935</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>383,962,718</u>	<u>357,960,750</u>
Profit for the year attributable to:			
Shareholders of the Company		360,206,736	336,733,241
Non-controlling interests	27	<u>24,094,923</u>	<u>19,488,574</u>
		<u>384,301,659</u>	<u>356,221,815</u>
Total comprehensive income for the period attributable to:			
Shareholders of the Company		359,900,412	338,621,316
Non-controlling interests	27	<u>24,062,306</u>	<u>19,339,434</u>
		<u>383,962,718</u>	<u>357,960,750</u>
Earnings per share			
Basic and diluted earnings per share attributable to the Shareholders of the Company	13	<u>3.60</u>	<u>3.37</u>


Managing Director
Mohammed Al Saleem


Authorized Board Representative
Mohammed Al Saleem



Chief Finance Officer
Yusuf Sulaiman

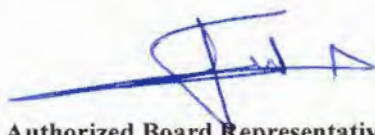
The accompanying notes form an integral part of these consolidated financial statements

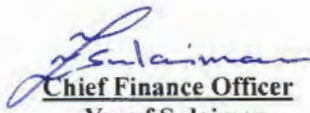
MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

	Notes	2018 SR	2017 SR
ASSETS			
Non-current assets			
Property and equipment	16	1,910,684,112	1,633,978,036
Goodwill	14	16,371,000	16,371,000
Intangible assets	15	14,784,861	12,646,681
Investment in an associate	18	12,195,770	12,861,747
Advances to contractors	17	58,664,165	29,376,673
Total non-current assets		2,012,699,908	1,705,234,137
Current assets			
Inventories	19	139,748,148	121,797,910
Accounts receivable	20	655,294,301	348,727,621
Advances, prepayments and other assets	21	80,464,191	61,848,837
Term deposit	22	35,000,000	40,000,000
Cash and cash equivalents	23	130,179,418	201,792,146
Total current assets		1,040,686,058	774,166,514
TOTAL ASSETS		3,053,385,966	2,479,400,651
EQUITY AND LIABILITIES			
Equity			
Share capital	24	1,000,000,000	500,000,000
Statutory reserve	26	239,726,561	203,705,887
Retained earnings		473,158,071	786,635,701
Equity attributable to shareholders of the Company		1,712,884,632	1,490,341,588
Non-controlling interests	27	93,671,265	82,186,211
Total equity		1,806,555,897	1,572,527,799
Non-current liabilities			
Term loans	28	602,210,581	461,086,157
Retirement benefit obligations	29	79,267,384	67,466,862
Total non-current liabilities		681,477,965	528,553,019
Current liabilities			
Accounts payable	30	181,802,396	129,043,074
Accruals and other payables	31	122,498,579	110,282,629
Refund liabilities	32	144,388,551	-
Current portion of term loans	28	79,193,504	102,705,574
Zakat provision	12	37,469,074	36,288,556
Total current liabilities		565,352,104	378,319,833
Total liabilities		1,246,830,069	906,872,852
TOTAL EQUITY AND LIABILITIES		3,053,385,966	2,479,400,651


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

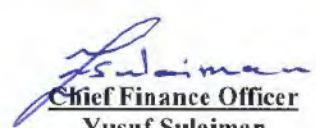
MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

	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, 2017	500,000,000	170,032,563	606,687,709	1,276,720,272	77,546,777	1,354,267,049
Profit for the year	-	-	336,733,241	336,733,241	19,488,574	356,221,815
Other comprehensive income for the year	-	-	1,888,075	1,888,075	(149,140)	1,738,935
Total comprehensive income for the year	-	-	338,621,316	338,621,316	19,339,434	357,960,750
Transfer to statutory reserve	-	33,673,324	(33,673,324)	-	-	-
Dividends (note 25)	-	-	(125,000,000)	(125,000,000)	-	(125,000,000)
Other movement in non-controlling interests	-	-	-	-	(14,700,000)	(14,700,000)
December 31, 2017	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 (note 5)	-	-	83,474,933	83,474,933	576,201	84,051,134
Impact of IFRS 15 adoption (note 5)	-	-	(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 24)	500,000,000	-	(500,000,000)	-	-	-
Dividends (note 25)	-	-	(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


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, 2018

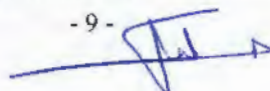
	2018 SR	2017 SR
OPERATING ACTIVITIES		
Profit before zakat	408,691,496	379,547,367
Adjustments for:		
Depreciation	106,805,460	89,276,297
Allowance for doubtful receivables	7,208,254	(5,976,013)
Amortization of intangible assets	2,995,302	2,284,127
Share of results of an associate	(3,452,167)	(4,118,144)
Retirement benefit obligations	19,539,939	18,332,647
Finance cost	23,613,979	14,607,776
Property and equipment written off	702,097	-
Gain on disposal of property and equipment	(134,892)	(410,226)
	565,969,468	493,543,831
Movement in working capital :		
Accounts receivable	(298,029,554)	(34,936,480)
Advances, prepayments and other assets	(18,615,354)	(19,491,411)
Inventories	(17,950,238)	2,544,289
Accounts payable	52,759,322	24,802,779
Accruals and other payables	8,428,125	30,429,272
Refund liabilities	144,388,551	-
Cash from operations	436,950,320	496,892,280
Employees' benefit obligations paid	(8,078,358)	(14,797,802)
Finance cost paid	(19,826,154)	(14,592,433)
Zakat paid	(23,209,319)	(15,944,754)
Net cash from operating activities	385,836,489	451,557,291
INVESTING ACTIVITIES		
Purchase of property and equipment	(306,735,422)	(294,975,337)
Purchase of intangible assets	(5,133,482)	(5,069,889)
Proceeds on disposal of property and equipment	415,065	660,204
Dividend received from an associate	4,118,144	3,038,893
Advances to contractors	(107,045,876)	(26,387,730)
Term deposit	5,000,000	(10,000,000)
Net cash used in investing activities	(409,381,571)	(332,733,859)
FINANCING ACTIVITIES		
Proceeds from term loans	222,680,424	245,701,584
Repayment of term loans	(105,068,070)	(146,877,882)
Repayment of short term loans	-	(1,057,500)
Dividends paid to shareholders	(150,000,000)	(125,000,000)
Other movement in non-controlling interests	(15,680,000)	(14,700,000)
Net cash used in financing activities	(48,067,646)	(41,933,798)
Net increase in cash and cash equivalents	(71,612,728)	76,889,634
Cash and cash equivalents at the beginning of the year	201,792,146	124,902,512
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	130,179,418	201,792,146

Managing Director
Mohammed Al Saleem

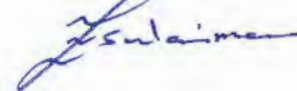


Authorized Board Representative
Mohammed Al Saleem

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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, 2018

Non cash transactions

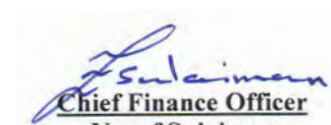
	2018 SR	2017 SR
Increase in share capital by issuing bonus shares	500,000,000	-
Decrease in impairment loss against accounts receivable on adoption of IFRS 9	84,051,134	-
Adjustment to accounts receivable on adoption of IFRS 15	(68,305,754)	-
Finance cost capitalized	17,474,749	-
Transfer from advances to contractors to property and Equipment	77,758,384	67,870,096
Re-measurement loss/(gains) on retirement benefit obligation	(338,941)	(1,738,935)



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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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). The company 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). The company 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 multiple 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
Khobar	2051032510	27/03/1427H
Khobar	2051064380	12/09/1438H
Dammam	2050046891	18/09/1425H
Dammam	2050111494	20/04/1438H
Dammam	2050111780	25/05/1438H
Dammam	2050086573	27/11/1433H
Jubail	2055004626	09/03/1421H
Jubail	2055006727	19/09/1425H
Riyadh	1010295838	09/11/1431H
Madinah	4650029967	06/05/1421H
Madinah	4650030759	11/11/1421H
Madinah	4650083001	18/01/1438H

**MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

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

New and revised IFRS Standards in issue but not yet effective

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

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
<i>IFRS 16 Leases</i> : IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17	January 1, 2019
<i>IFRIC 23 Uncertainty over Income Tax Treatments</i>	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: <ul style="list-style-type: none">• 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.	
<i>Amendments to IFRS 9 Financial Instruments</i> : Relating to prepayment features with negative compensation. 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.	January 1, 2019

**MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

New and revised IFRSs in issue but not yet effective (continued)

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
<i>Amendments to IAS 28 Investment in Associates and Joint Ventures:</i> Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 <i>Financial Instruments</i> 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.	January 1, 2019
<i>Annual Improvements to IFRS Standards 2015–2017:</i> Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	January 1, 2019
<i>Amendments to IAS 19 Employee Benefits:</i> The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income.	January 1, 2019
<i>Amendments to IAS 1 and IAS 8:</i> <ul style="list-style-type: none">• The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards.• The concept of ‘obscuring’ material information with immaterial information has been included as part of the new definition.• The threshold for materiality influencing users has been changed from ‘could influence’ to ‘could reasonably be expected to influence’.• The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term ‘material’ to ensure consistency.	January 1, 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

New and revised IFRS in issue but not yet effective (continued)

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
<i>Amendments to References to the Conceptual Framework in IFRS Standards:</i>	January 1, 2020
<ul style="list-style-type: none">• Reintroduces the terms stewardship and prudence.• Introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument.• Removes from the asset and liability definitions references to the expected flow of economic benefits—this lowers the hurdle for identifying the existence of an asset or liability and puts more emphasis on reflecting uncertainty in measurement.• Discusses historical cost and current value measures, and provides some guidance on how the IASB would go about selecting a measurement basis for a particular asset or liability.• States that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances will the IASB use other comprehensive income and only for income or expenses that arise from a change in the current value of an asset or liability.• Discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.	
<p>The IASB has also updated references in Standards so that they will refer to the new Framework, but it has not made consequential amendments to Standards to reflect changes in the Framework such as changing the asset and liability definitions in the Standards.</p>	
<i>IFRS 17 Insurance Contracts:</i>	January 1, 2021
<p>IFRS 17 requires insurance liabilities to be measured at a current fulfillment 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 <i>Insurance Contracts</i> as of January 1, 2021.</p>	
<p>Amendments to IFRS 10 <i>Re-issued consolidated financial statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.</p>	Effective date deferred indefinitely. Adoption is still permitted.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

New and revised IFRS in issue but not yet effective (continued)

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
<i>Amendments to IFRS 3:</i>	January 1, 2020
<ul style="list-style-type: none">• The amendments mean that, to be considered a business, an acquired 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 outputs.• Additional guidance is introduced that helps to determine whether a substantive process has been acquired. New illustrative examples assist with the interpretation of what is considered a business.• The IASB has removed the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs.• The definitions of a business and of outputs are narrowed by focusing on goods and services provided to customers. The reference to an ability to reduce costs is removed.• The IASB has introduced an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business— it is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.	

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, except for as highlighted in previous paragraphs, may have no material impact on the financial statements of the Group in the period of initial application.

The Group's management is currently assessing the effect of applying the new standards on the Group's financial statements. However, the management's initial view is that the new standards are not expected to have a significant impact on measurement and classification of revenue, financial assets and long term leases. The Group did not enter into any long term operating lease contracts and therefore the impact of implementing IFRS 16 will not have material impact on the financial statements of the Group.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

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

All 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates (continued)

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture. When the Group retains an interest in the former associate or a joint venture 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 or a joint venture 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

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture 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 (rejections of claims) when the related services are rendered.

Some contracts includes variable considerations such as rejection of claims, volume discount and prompt payment discount. Prior to the adoption of IFRS 15, management made its best estimate of the retroactive/discount adjustment based on its knowledge and experience about past and current events. Under IFRS 15, management estimates variable consideration using the expected value method for rejections and volume discounts and single most likely amount method for prompt payment discount. Management apply one method consistently throughout the contract when estimating the effect of an uncertainty on an amount of variable consideration to which the Company will be entitled. In addition, management consider all the information (historical, current and forecast) that is reasonably available to the Company and identify a reasonable number of possible consideration amounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Operating revenue (continued)

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 and are recognised, net of discount, when the significant risks and rewards of ownership of those goods have passed to the buyer and the amount of revenue can be measured reliably; normally on dispensing of medicine to the customer/ patient.

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 should be 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

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 and interest income

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

Leases

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

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 (continued)

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. 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 (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease 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 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.

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.

**MOUWASAT MEDICAL SERVICES COMPANY
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

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 stated at historical cost less accumulated depreciation and impairment losses, if any, except freehold land and capital work in progress which are stated at cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items including borrowing costs. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. Where major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized 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. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Disposal of asset is recognized when significant risks and rewards incidental to ownership have been transferred to buyers. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'Other operating expenses / income' in the statement of profit or loss and comprehensive income.

Depreciation is charged to the statement of comprehensive income using the straight line method whereby the cost of an operating asset less its estimated residual value is written off over its estimated useful life. Depreciation on addition is charged from the month in which the asset is available for use and on disposals up to the month of disposal. Depreciation method, useful lives and residual values are reviewed annually.

Capital work-in-progress is stated at cost less impairment losses, if any, and is not depreciated until the asset is brought into commercial operations and available for intended use.

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

	<u>Years</u>
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

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

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.

The retirement benefit obligation recognized in the statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (continued)

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.

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 profit or loss.

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

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.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; 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.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Classification of financial assets (continued)

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

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, lease receivables, trade receivables and 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.

The Group always recognises lifetime ECL for accounts receivables, contract assets and lease receivables. 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.

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.

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 at the reporting date with the risk of a default occurring on the financial instrument 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. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Significant increase in credit risk (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition;

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument,
- e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the
- debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, 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 debtor 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.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Significant increase in credit risk (continued)

i) Definition of default

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.

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 210 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

ii) 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

iii) Write off policy

The Group writes off a financial asset 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, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss

iv) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Significant increase in credit risk (continued)

iv) Measurement and recognition of expected credit losses (continued)

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.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

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.

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. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities (continued)

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship (see Hedge accounting policy). The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other income-net' line item (note 11) in profit or loss.

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 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 in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities (continued)

Financial liabilities at FVTPL (continued)

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.

Fair value is determined in the manner described in note 37.

Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at 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.

Financial guarantee contract liabilities

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9 (see financial assets above); and
- the amount recognised initially less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the 'other gains and losses' line item in profit or loss for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognised in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship.

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)

Financial instruments (continued)

Financial liabilities (continued)

Derecognition of financial liabilities (continued)

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

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. The management has not considered any residual value as it is deemed immaterial.

Significant increase in credit risk

As explained in note 3, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL 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 Company has identified the GDP and market credit risk 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.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Property, and equipment

The Company 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 Company 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 Company 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.

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

Key sources of estimation uncertainty (continued)

Impairment of non-financial assets

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

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 Company uses its accumulated historical experience to estimate the refund liabilities using the expected value method.

5. IMPACT OF ADOPTION OF IFRS 9 AND 15

The following new and revised IFRSs, which became effective for annual periods beginning on or after January 1, 2018, have been adopted in these consolidated financial statements.

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after January 1, 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. Hence, the Group has elected not to restate comparatives in respect of the classification and measurement of financial instruments.

a) Classification and measurement

The application of IFRS 9 has had no impact on the classification and measurement of the Group's financial assets and financial liabilities.

(b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on:

- (1) Debt investments measured subsequently at amortised cost or at FVTOCI;
- (2) Lease receivables;
- (3) Trade receivables and contract assets; and
- (4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

5. IMPACT OF ADOPTION OF IFRS 9 AND 15 (CONTINUED)

Impact of initial application of IFRS 9 Financial Instruments (continued)

(b) Impairment of financial assets (continued)

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

Because the Group has elected not to restate comparatives, for the purpose of assessing whether there has been a significant increase in credit risk since initial recognition of financial instruments that remain recognised on the date of initial application of IFRS 9 (i.e. January 1, 2018).

The Group has applied the simplified ECL model to assess the lifetime expected credit losses and established a provision matrix that is based on Group's historical credit loss which has been adjusted for forward looking factors specific to the economic environment.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the class of the Group's financial assets as at January 1, 2018.

Financial assets	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount as under IFRS 9
Cash and bank balances	A	Loans and receivable	Amortized cost	201,792,146	201,792,146
Accounts receivable	B	Loans and receivable	Amortized cost	348,727,621	534,021,909
Contract assets	C	Loans and receivable	Amortized cost	7,511,817	7,511,817
				558,031,584	743,325,872

- A- All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable banking institutions
- B- Accounts receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. The Group has reclassified SR 169.5 million and SR 15.7 million from allowance for accounts receivables to refund liability and retained earnings respectively.
- C- A contract asset is an entity's right to consideration in exchange for inpatient services that the entity has dispensed to a customer/patient. There was no restatement due to this change; except for reclassification between accrued incomes to contract assets.

The application of IFRS 9 has had no impact on the consolidated cash flows of the Group. There has been no impact of the application of IFRS 9 on basic and diluted earnings per share.

Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after January 1, 2018. IFRS 15 introduced a 5 step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group elected the modified retrospective method and applied the standard retrospectively to only the most current period presented in the financial statements. The Group recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application i.e. January 1, 2018 which is allowable as per the standard. Accordingly, the information presented for the previous corresponding period has not been restated.

**MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

5. IMPACT OF ADOPTION OF IFRS 15 AND 9 (CONTINUED)

Impact of application of IFRS 15 Revenue from Contracts with Customers (continued)

IFRS 15 uses the terms ‘contract asset’ and ‘contract liability’ to describe what might more commonly be known as ‘accrued revenue’ and ‘deferred revenue’, however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Group has adopted the terminology used in IFRS 15 to describe such balances.

The Group’s accounting policies for its revenue streams are disclosed in detail in note 3. Apart from providing more extensive disclosures for the Group’s revenue transactions, the application of IFRS 15 has had a significant impact on the financial position and/or financial performance of the Group.

The amount of adjustment for each financial statement line item affected by the application of IFRS 15 and 9 is illustrated below.

	IAS 39 carrying amount as at January 1, 2018	IFRS 9	IFRS 15	IFRS 9 carrying amount as at January 1, 2018
<i>Financial assets</i>				
Accounts receivable	348,727,621	(36,500,434)	101,243,154	413,470,341
Adjustment	-	120,551,568	-	120,551,568
Revised accounts receivable	348,727,621	84,051,134	101,243,154	534,021,909
<i>Financial liabilities</i>				
Refund liability	-	-	(48,997,340)	(48,997,340)
Adjustment	-	-	(120,551,568)	(120,551,568)
Revised refund liability	-	-	(169,548,908)	(169,548,908)
<i>Equity</i>				
Retained earnings	786,635,701	83,474,933	(70,832,301)	799,278,333
Non-controlling interest	82,186,211	576,201	2,526,547	85,288,959

For services provided there is a timing difference between payment and when services received by the customer. An adjustment to revenue has therefore been made to reflect the change in accounting. A contract liability has also been recognized for this amount.

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 have 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 has become SR 169.5 million and the allowance for receivable impairment has become 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.

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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

	2018	2017
	SR	SR
<i>At a point in time</i>		
Outpatient services	693,032,788	644,195,970
Pharmaceuticals	235,341,262	217,550,186
	928,374,050	861,746,156
<i>Overtime</i>		
Inpatient services	748,644,700	645,391,720
	1,677,018,750	1,507,137,876

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.

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7. OPERATING SEGMENTS (CONTINUED)

	In-patient	Out-patient	Pharmaceuticals	Total
For the year ended December 31, 2018	SR	SR	SR	SR
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
Finance costs				(6,139,230)
Other income				7,317,887
Profit before zakat				408,691,496
Zakat				(24,389,837)
Net profit for the period				384,301,659
For the year ended December 31, 2017				
Revenue	645,391,720	644,195,970	217,550,186	1,507,137,876
Gross profit	324,118,546	324,733,064	63,315,707	712,167,317
Unallocated income (expenses)				
Selling and distribution expenses				(151,174,000)
General and administration expenses				(189,467,013)
Share in results of an associate				4,118,144
Other income				8,795,352
Finance costs				(4,892,433)
Profit before zakat				379,547,367
Zakat				(23,325,552)
Net profit for the period				356,221,815
As at December 31, 2018	In-patient SR	Out-patient SR	Pharmaceuticals SR	Total SR
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
As at December 31, 2017				
Total assets	1,264,494,332	942,172,247	272,734,072	2,479,400,651
Total liabilities	417,161,512	335,542,955	154,168,385	906,872,852

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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 and joint ventures, central administration costs including directors' salaries, finance income, non-operating gains and losses in respect of financial instruments and finance costs, and income tax expense. 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

	2018 SR	2017 SR
Employees' cost	384,122,699	322,118,669
Material consumption	131,836,019	131,956,656
Depreciation (note 16)	85,174,310	71,421,038
Drug consumption	61,398,412	57,355,127
Repair and maintenance	19,240,651	15,831,315
Support services	19,253,622	15,313,793
Utilities	12,386,378	11,014,877
Amortization of intangible assets (note 15)	1,350,291	1,092,229
Others	19,526,181	14,632,376
	734,288,563	640,736,080

9. SELLING AND DISTRIBUTION EXPENSES

	2018 SR	2017 SR
Allowance for doubtful receivables	82,620,404	91,061,460
Employee's cost	54,874,672	46,016,938
Advertisement and promotion	16,734,093	14,095,602
	154,229,169	151,174,000

10. GENERAL AND ADMINISTRATION EXPENSES

	2018 SR	2017 SR
Employees' cost	109,749,343	92,033,876
Depreciation (note 16)	21,631,150	17,855,259
Management bonus	17,995,020	16,943,566
Board of directors' remuneration	2,713,800	2,700,000
Repair and maintenance	8,245,993	6,784,849
Executives' salaries	6,150,000	6,150,000
Support services	8,251,626	5,950,667
Utilities	5,308,448	4,720,662
Rent	2,251,673	2,229,449
Amortization of intangible assets (note 15)	1,645,011	1,191,898
Others	31,266,769	32,906,787
	215,208,833	189,467,013

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11. OTHER INCOME, NET

	2018 SR	2017 SR
Rental income	2,258,297	2,761,051
Suppliers prompt payment discount	961,800	1,669,594
Services provided to an associate	-	450,062
Gain on disposal of property and equipment	134,892	410,226
Others	3,962,898	3,504,419
	<u>7,317,887</u>	<u>8,795,352</u>

12. ZAKAT

The principle elements of zakat base are as follows:

	2018 SR	2017 SR
Non-current assets	2,012,699,908	1,705,234,137
Non-current liabilities	681,477,965	528,553,019
Opening shareholders' equity	1,502,984,220	1,276,720,272
Profit before zakat	408,691,496	379,547,367
Dividend paid	(150,000,000)	(125,000,000)

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:

	2018 SR	2017 SR
January 1	36,288,556	28,907,758
Provision for the year	24,389,837	23,325,552
Payments during the year	(23,209,319)	(15,944,754)
December 31	<u>37,469,074</u>	<u>36,288,556</u>

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12. ZAKAT (CONTINUED)

Mouwasat Medical Services Company

The Company has submitted its zakat returns up to year ended December 31, 2017, 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 during the year. The assessment for the year 2017 is 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 December 31, 2017, 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 during the year. The assessment for the year 2017 is still under review by the GAZT.

Specialised Medical Clinic Company Limited

Zakat assessments have been agreed with the GAZT up to 2008. The zakat declarations for the years from 2009 to 2013 have been filed with the GAZT. However, the final assessments have not yet been raised by the GAZT. The Company has not filed the Zakat declarations for the years from 2014 to 2017 and thereafter.

13. BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE 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:

	2018	2017
	SR	SR
Profit for the year attributable to shareholders of the parent Company (SR)	360,206,736	336,733,241
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)	3.60	3.37

During the year, shareholders resolved to increase the share capital through bonus shares, one share for each existing share (note 24) issued to existing shareholders effective June 3, 2018. Earnings per shares for current and comparative period have 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.

14. 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 2018 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 16%. The growth rate used to extrapolate the cash flows of the unit beyond the five-year period is 2%. This growth rate of Saudi Arabia is ranging from 1 % to 3 .5%. As a result of the analysis, there is recoverable amounts of SR 197 million (2017:SR102 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 marked data.

Growth rate estimates are based on published industry research.

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15. INTANGIBLE ASSETS

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

	Software SR	Operating licenses SR	Total SR
Cost			
January 1, 2017	13,164,061	3,880,588	17,044,649
Additions	3,253,169	1,816,720	5,069,889
Write offs	-	(1,775,411)	(1,775,411)
December 31, 2017	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
Amortization			
January 1, 2017	4,800,435	2,383,295	7,183,730
Charge for the year	1,365,287	918,840	2,284,127
Write offs	-	(1,775,411)	(1,775,411)
December 31, 2017	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
Net book value			
December 31, 2018	12,060,014	2,724,847	14,784,861
December 31, 2017	10,251,508	2,395,173	12,646,681

The amortisation of intangible assets has been allocated as follows:

	2018 SR	2017 SR
Cost of operations (note 8)	1,350,291	1,092,229
General and administration expenses (note 10)	1,645,011	1,191,898
	2,995,302	2,284,127

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16. PROPERTY AND EQUIPMENT

	Land SR	Buildings SR	Building system and improvement SR	Medical equipment and tools SR	Furniture and Fixture SR	Motor vehicles SR	Construction work in Progress SR	Total SR
Cost								
January 1, 2017	283,568,602	606,063,383	271,780,202	477,174,525	91,731,804	32,597,099	152,012,222	1,914,927,837
Additions	51,500,000	4,284,660	7,101,854	35,925,399	21,122,693	3,171,290	239,739,537	362,845,433
Transfers from CWIP	-	19,892,481	8,612,893	-	2,532,920	-	(31,038,294)	-
Disposals	-	-	(60,300)	(3,074,895)	(1,828,207)	(2,406,459)	-	(7,369,861)
December 31, 2017	335,068,602	630,240,524	287,434,649	510,025,029	113,559,210	33,361,930	360,713,465	2,270,403,409
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
Depreciation								
January 1, 2017	-	153,646,366	100,629,257	226,565,469	53,458,753	19,969,114	-	554,268,959
Charge for the year	-	17,322,201	21,350,843	35,696,226	10,496,785	4,410,242	-	89,276,297
Disposals	-	-	(60,294)	(2,961,617)	(1,800,922)	(2,297,050)	-	(7,119,883)
December 31, 2017	-	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
Net book value								
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
December 31, 2017	335,068,602	459,271,957	165,514,843	250,724,951	51,404,594	11,279,624	360,713,465	1,633,978,036

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16. PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation charge for the year has been allocated as follow:

	2018 SR	2017 SR
Cost of operations (note 8)	85,174,310	71,421,038
General and administration expenses (note 10)	21,631,150	17,855,259
	<u>106,805,460</u>	<u>89,276,297</u>

As of December 31, 2018, plots of land amounting to SR 56.1 million (2017: SR 56.1 million) have been pledged as security against term loans.

Construction work-in-progress represents costs incurred to construct new hospitals in and expansion of existing hospitals in Dammam and Madinah as at December 31, 2018. In 2018, borrowing costs of SR 17.5 million (2017: SR 9.7 million) has been capitalised.

17. 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:

	2018 SR	2017 SR
January 1	29,376,673	70,859,039
Payments during the year	107,045,876	26,387,730
Transfer to construction work in progress	(77,758,384)	(67,870,096)
December 31	<u>58,664,165</u>	<u>29,376,673</u>

18. 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:

	2018 SR	2017 SR
January 1	12,861,747	11,782,496
Share in results	3,452,167	4,118,144
Dividends	(4,118,144)	(3,038,893)
December 31	<u>12,195,770</u>	<u>12,861,747</u>

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

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19. INVENTORIES

	2018	2017
	SR	SR
Pharmaceuticals and cosmetic materials	72,669,236	59,965,825
Surgical and consumable tools	62,318,256	58,291,074
Spare parts and consumables	4,760,656	3,541,011
	139,748,148	121,797,910

The cost of inventories recognised as an expense during the year was SR 417.46 million (2017: SR 387.43 million).

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.

20. ACCOUNTS RECEIVABLE

	2018	2017
	SR	SR
Accounts receivable-trade	695,176,158	462,107,292
Less: Allowance for doubtful receivables	(39,881,857)	(116,726,544)
	655,294,301	345,380,748
Due from related parties	-	468,797
Retentions receivable	-	2,878,076
	655,294,301	348,727,621

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

The Group has adopted IFRS 9, using the modified retrospective transitional method, and has used the exemption contained therein allowing it not to restate comparative information for prior periods presented with respect to the changes resulting from the measurement of financial assets.

Any differences in the carrying amounts of financial assets, resulting from the adoption of IFRS 9 are recognized in the opening retained earnings as at 1 January 2018. Accordingly, the financial information presented for the year ended December 31, 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the financial information presented for the 2018 financial year under IFRS 9.

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.

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20. ACCOUNTS RECEIVABLE (CONTINUED)

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 Company's provision matrix. As the Company'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 Company's different customer types.

December 31,2018	Trade receivable – days past due					Total SR
	Not past due SR	30-90 SR	90-180 SR	180-360 SR	>360 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
	155,908,974	162,701,997	143,717,151	138,683,054	54,283,125	655,294,301

Movement in allowance for accounts receivables

	2018 SR	2017 SR
January 1	116,726,544	122,702,556
IFRS 9 adjustment	(84,051,134)	-
Provision during the year	82,620,404	91,061,460
Write offs	(75,413,957)	(97,037,472)
December 31	39,881,857	116,726,544

21. ADVANCES, PREPAYMENTS AND OTHER ASSETS

	2018 SR	2017 SR
Prepaid expenses	39,375,407	20,048,480
Advances to suppliers	34,883,280	9,976,964
Contract asset	6,066,841	7,511,817
Other assets	138,663	24,311,576
	80,464,191	61,848,837

22. TERM DEPOSIT

As at December 31, 2018, term Islamic deposit of SR 35 million (2017 – SR 40 million) was placed with a local bank with maturities of more than three months when purchased and earn commission income at an average rate 1.05% to 2.8%.

23. CASH AND CASH EQUIVALENTS

	2018 SR	2017 SR
Cash in hand	478,586	513,282
Bank balances	129,700,832	141,278,864
Short term deposit	-	60,000,000
	130,179,418	201,792,146

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23. CASH AND CASH EQUIVALENTS (CONTINUED)

Cash and cash equivalents comprise cash at banks, cash on hand, short 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. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less.

24. SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is divided into 100 million shares (2017: 50 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.

25. DIVIDENDS

The board of directors at their meeting held subsequent to consolidated financial statements date on 20 Jumada II 1440 H (corresponding to February 25, 2019) proposed a cash dividend of SR 1.75 per share amounting to SR 175 million for the year ended December 31, 2018.

The board of directors at their meeting held subsequent to consolidated financial statements date on 12 Jumada I 1439 H (corresponding to January 29, 2018) proposed a cash dividend of SR 3 per share amounting to SR 150 million for the year ended December 31, 2017, which was subsequently approved by shareholders in General Assembly Meeting held on 16 Shaaban 1439H (corresponding to May 2, 2018).

26. 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.

27. NON CONTROLLING INTERESTS

The movements in non-controlling interests are as follows:

	2018 SR	2017 SR
January 1	82,186,211	77,546,777
IFRS 9 adjustment	576,201	-
IFRS 15 adjustment	2,526,547	-
Total comprehensive income for the year	24,062,306	19,339,434
Other movement in non-controlling assets	(15,680,000)	(14,700,000)
December 31	<u>93,671,265</u>	<u>82,186,211</u>

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27. NON CONTROLLING INTERESTS (CONTINUED)

Material partly-owned subsidiary

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

	2018 SR	2017 SR
Equity interest held by non-controlling interests	49%	49%
Accumulated balances of material non-controlling interest	93,554,851	82,089,146
Total comprehensive income allocated to material non-controlling interest	24,057,054	19,333,746

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 and loss and other comprehensive income

	2018 SR	2017 SR
Revenue	232,282,790	189,557,410
Cost of sales	(109,800,668)	(101,338,211)
Selling and distribution expenses	(32,052,060)	(14,307,724)
General and administration expenses	(37,275,185)	(31,711,516)
Other income	653,412	576,333
Profit before zakat	53,808,289	42,776,292
Zakat for the year	(4,645,696)	(3,015,302)
Net profit for the year	49,162,593	39,760,990
Other comprehensive loss for the year	(66,565)	(304,367)
Total comprehensive income for the year	49,096,028	39,456,623
Attributable to non-controlling interest:	24,057,054	19,333,745
Dividends to non-controlling interests	15,680,000	14,700,000

Summarised statement of financial position:

	2018 SR	2017 SR
Current assets	138,886,194	106,932,100
Non-current assets	96,822,025	98,249,712
Current liabilities	(26,796,740)	(20,543,029)
Non-current liabilities	(17,983,212)	(17,109,914)
Total Equity	190,928,267	167,528,869
Total equity attributable to:		
Shareholder of the parent company	97,373,416	85,439,723
Non-controlling interests	93,554,851	82,089,146

Summarised cash flow information for year ended

	2018 SR	2017 SR
Cash from operating activities	33,238,883	49,082,540
Cash used in investing activities	(3,490,424)	(23,465,705)
Cash used in financing activities	(33,929,932)	(31,929,933)
Net decrease in the cash and cash equivalents	(4,181,473)	(6,313,098)

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28. TERM LOANS

	Effective interest rate	Maturity	2018 SR	2017 SR
Current				
Medium term loans (a)	Sibor+2 %	December 31, 2019	71,316,631	94,828,701
Loans from ministry of finance (b)	-	July 31 ,2019	7,876,873	7,876,873
			79,193,504	102,705,574
Non-Current				
Medium term loans (a)	Sibor+2%	April 30, 2025	498,381,985	349,380,689
Loans from ministry of finance (b)	-	December 31, 2036	103,828,596	111,705,468
			602,210,581	461,086,157

- 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 instalments. These loans do not carry any financial charges.
- c) The Group had SR 949.6 million of unutilized facilities available for drawdown from total facilities of SR 1,673.7 million (2017: SR 513 million).

Following are the combined aggregate amounts of future maturities of the term loans as at December 31 2018 & 2017:

	2018 SR	2017 SR
2018	-	102,705,574
2019	79,193,504	76,410,120
2020	115,411,112	103,167,114
2021	138,553,232	114,487,766
2022	139,123,299	113,391,167
2023 and onwards	209,122,938	53,629,990
	681,404,085	563,791,731

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, 2018, the Group was in compliance with financial covenants.

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29. 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 IAS 19, management has carried out an exercise to assess the present value of its defined benefit obligations at December 31, 2018 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 6.75 years (2017: 9.11 years).

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

	2018 SR	2017 SR
Discount rate	4.25%	3.05%
Salary increase rate	4.50%	3.00%

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

	2018 SR	2017 SR
Present value of defined benefit obligations	78,928,443	69,205,797
Re-measurement losses (gains) on employees' defined benefit obligations	338,941	(1,738,935)
Balance as at December 31	<u>79,267,384</u>	<u>67,466,862</u>

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

	2018 SR	2017 SR
Current service cost	17,276,030	16,011,000
Interest cost on benefit obligation	2,263,909	2,321,647
	<u>19,539,939</u>	<u>18,332,647</u>

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

	2018 SR	2017 SR
January 1	67,466,862	65,670,952
Current service cost	17,276,030	16,011,000
Interest cost	2,263,909	2,321,647
Re-measurement losses (gains) on employees' defined benefits obligations	338,941	(1,738,935)
Benefits paid	<u>(8,078,358)</u>	<u>(14,797,802)</u>
December 31	<u>79,267,384</u>	<u>67,466,862</u>

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29. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

A quantitative sensitivity analysis for significant assumption on the defined benefit obligations as at December 31, 2018 is as shown below;

	2018 SR	2017 SR
Future salary increase		
0.5% Increase	82,739,079	70,782,380
0.5% Decrease	(77,180,287)	(64,378,186)
Discount rate		
0.5% Increase	77,186,566	64,394,025
0.5% Decrease	(82,760,302)	(70,797,458)

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:

	2018 SR	2017 SR
Year 1	6,148,012	4,170,929
Year 2	15,770,148	10,102,075
Year 3	8,471,902	7,777,650
Year 4	11,930,039	6,395,377
Year 5	11,930,039	9,664,511
Beyond 5 years	72,091,794	61,113,062

30. ACCOUNTS PAYABLE

	2018 SR	2017 SR
Trade payables	164,613,707	109,314,814
Due to related parties (note 34)	15,708,492	7,935,038
Retention payable	1,480,197	11,793,222
	181,802,396	129,043,074

The average credit period on purchases of goods from related parties is 6 months and other than related parties is 2 months. No interest is charged on the trade payables outstanding balance. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

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31. ACCRUALS AND OTHER PAYABLES

	2018	2017
	SR	SR
Accrued employee cost	61,208,176	53,141,688
Accrued management incentives	25,683,071	24,150,502
Accrued material and services cost	10,969,732	4,726,823
Accrued finance cost	6,341,135	2,553,310
Other payables	18,296,465	25,710,306
	<u>122,498,579</u>	<u>110,282,629</u>

32. REFUND LIABILITIES

Some contracts includes variable considerations such as volume discount, prompt payment discount and rejections. Prior to the adoption of IFRS 15, management made its best estimate of the retroactive/discount adjustment based on its knowledge and experience about past and current events. Under IFRS 15, management estimates variable consideration using the expected value method for volume discounts and single most likely amount method for prompt payment discount. Management applies one method consistently throughout the contract when estimating the effect of an uncertainty on an amount of variable consideration to which the Company 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 Company and identifies a reasonable number of possible consideration amounts.

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

	2018	2017
	SR	SR
January 1	101,243,154	-
IFRS 15 adjustment	(52,245,814)	-
Reclassified from accounts receivables	120,551,568	-
Written off during the year	(25,160,357)	-
December 31, 2018	<u>144,388,551</u>	-

33. SHORT TERM LOANS

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

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34. 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	2018 SR	2017 SR
Advance Medical Project Company ("AMPC")	Associate	Revenue	(2,615,412)	(8,431,851)
		Purchases and services	623,219	5,463,154
		Other services	-	450,062
Al-Mouwasat International Company	Affiliate	Purchases and services	23,365,746	23,230,114
AdVision Media Solution		Purchases and services	19,955,852	14,266,966
Magrabi Hospitals & Centers Company Ltd.		Expenses	4,477,990	4,430,526
		Revenue	(1,945,745)	(4,166,017)
Gilan Company For Restaurants	Affiliate	Rental Income	-	148,333

Due from a related party consist of the following:

	2018 SR	2017 SR
Advance Medical Project Company ("AMPC")	-	468,797

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. No expense has been recognized in the current or prior year for bad or doubtful debts in respect of the amounts owed by related parties.

The amounts due to related parties represents the following:

Due to related parties:

	2018 SR	2017 SR
AdVision Media Solution	9,593,714	2,598,660
Magrabi Hospitals & Centers Company Ltd.	3,570,325	1,644,678
Al-Mouwasat International Company	2,544,453	3,691,700
	15,708,492	7,935,038

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, 2018 disclosed in the financial statements principally include balances related to the above mentioned transactions.

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34. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

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:

	2018	2017
	SR	SR
Salaries and allowances	7,911,000	7,611,000
Incentives and other benefits	9,902,811	9,328,276
	17,813,811	16,939,276

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 2.7 million (2017 SR 2.7 million) have been included as part of key management personnel remuneration.

35. CONTINGENCIES AND COMMITMENTS

Guarantees

The Group's bankers have given guarantees, on behalf of the Group, amounting to SR 0.67 million (2017: nil) mainly in respect of performance guarantees to customers.

Capital commitments

As of December 31, 2018, the Groups' capital commitments amounted to SR 300.4 million (December 31, 2017: SR 472.7 million) relating to certain expansion projects.

The Group has outstanding letter of credits amounting to SR 21 million (2017: nil) as of December 31, 2018.

36. 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 4.3 million (2017: SR 4.3 million). At December 31, the Group had outstanding commitments under non-cancelable operating leases for rental of properties, which fall due as follows;

Non-cancellable operating lease commitments

	2018	2017
	SR	SR
Not later than 1 year	5,068,414	4,869,742
Later than 1 year but not later than 5 years	5,375,565	10,923,803
	10,443,979	15,793,545

37. FINANCIAL INSTRUMENTS

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

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

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, 2018.

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.

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

	2018	2017
	SR	SR
Profit before zakat		
Increase by 50 points	2,848,493	2,221,377
Decrease by 50 points	(2,848,493)	(2,221,377)

Foreign currency risk

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

Commodity risk

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

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37. FINANCIAL INSTRUMENTS (CONTINUED)

a) Market Risk (continued)

Credit Risk

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

	2018	2017
	SR	SR
Cash and cash equivalent	130,179,418	201,792,146
Term deposit	35,000,000	40,000,000
Accounts receivable	655,294,301	348,727,621
	<u>820,473,719</u>	<u>590,519,767</u>

Accounts receivable

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

Cash and cash equivalents and term deposits

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

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.

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37. FINANCIAL INSTRUMENTS (CONTINUED)

b) Liquidity Risk (continued)

The table below summarises the maturities of the Company's undiscounted financial liabilities at December 31, 2018, based on contractual payment dates and current market interest rates.

	Less than 3 moths SR	3 to 12 months SR	1 to 5 years SR	Above 5 years SR	Total SR
December 31, 2018					
Accounts payable	-	181,802,396	-	-	181,802,396
Accrued expenses and other liabilities	-	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
December 31, 2017					
Accounts payable	-	129,043,074	-	-	129,043,074
Accrued expenses and other liabilities	-	110,282,629	-	-	110,282,629
Term loans	23,594,782	79,110,792	415,144,727	79,220,627	597,070,928
	23,594,782	318,436,495	415,144,727	79,220,627	836,396,631

c) Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the year ended December 31, 2018 and the year ended December 31, 2017 except for the increase in share capital through bonus issue. Capital comprises share capital, statutory reserve, retained earnings and other reserve and is measured at SR 1,712.88 million as at December 31, 2018 (2017: SR1,490.34 million).

38. 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.

39. EVENT AFTER THE REPORTING PERIOD

There were no events subsequent to December 31, 2018 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.

40. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements of the Group as at December 31, 2018 were authorised for issue in accordance with the Board of Directors resolution on 26 Jumada II 1440 H (corresponding to March 3, 2019).