

**MOUWASAT MEDICAL SERVICES COMPANY (A SAUDI
JOINT STOCK COMPANY) AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016



**Building a better
working world**

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

Scope of audit:

We have audited the accompanying consolidated balance sheet of Mouwasat Medical Services Company, A Saudi Joint Stock Company ("the Company") and its subsidiaries (collectively referred to as "the Group") as at 31 December 2016 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion:

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

- i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016 and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

Abdulaziz Saud Alshubaihi
Certified Public Accountant
Registration No.339

16 Jumada' II 1438 H
15 March 2017

Al-Khobar



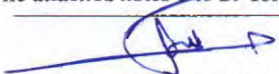
**Mouwasat Medical Services Company (A Saudi Joint Stock Company)
and its Subsidiaries**


CONSOLIDATED BALANCE SHEET


As at 31 December 2016

| | Notes | 2016 SR | 2015 SR |
|---|-------|----------------------|----------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Bank balances and cash | | 124,902,512 | 81,002,809 |
| Term deposit | 4 | 30,000,000 | 150,000,000 |
| Accounts receivable and prepayments | 5 | 343,115,146 | 271,278,813 |
| Inventories | 6 | 124,342,199 | 107,529,613 |
| TOTAL CURRENT ASSETS | | 622,359,857 | 609,811,235 |
| NON-CURRENT ASSETS | | | |
| Investment in an associate | 7 | 11,782,496 | 8,743,603 |
| Property and equipment | 9 | 1,381,310,201 | 1,212,212,035 |
| Advances to contractors | 10 | 70,859,039 | 23,308,370 |
| Goodwill | 11 | 16,371,000 | 16,371,000 |
| Other intangible assets | 12 | 1,497,293 | 1,053,382 |
| TOTAL NON-CURRENT ASSETS | | 1,481,820,029 | 1,261,688,390 |
| TOTAL ASSETS | | 2,104,179,886 | 1,871,499,625 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accruals | 13 | 184,078,309 | 146,739,183 |
| Short term loans | 14 | 1,057,500 | - |
| Current portion of term loans | 15 | 142,256,059 | 120,881,091 |
| Zakat provision | 16 | 28,907,758 | 22,411,354 |
| TOTAL CURRENT LIABILITIES | | 356,299,626 | 290,031,628 |
| NON-CURRENT LIABILITIES | | | |
| Term loans | 15 | 322,711,970 | 326,231,195 |
| Employees' terminal benefits | | 58,132,937 | 50,849,918 |
| TOTAL NON-CURRENT LIABILITIES | | 380,844,907 | 377,081,113 |
| TOTAL LIABILITIES | | 737,144,533 | 667,112,741 |
| SHAREHOLDERS' EQUITY | | | |
| EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY | | | |
| Share capital | 17 | 500,000,000 | 500,000,000 |
| Statutory reserve | | 170,032,563 | 144,444,240 |
| Retained earnings | | 494,097,412 | 390,202,507 |
| Proposed dividends | 18 | 125,000,000 | 100,000,000 |
| | | 1,289,129,975 | 1,134,646,747 |
| NON-CONTROLLING INTERESTS | 20 | 77,905,378 | 69,740,137 |
| TOTAL SHAREHOLDERS' EQUITY | | 1,367,035,353 | 1,204,386,884 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 2,104,179,886 | 1,871,499,625 |

The attached notes 1 to 29 form part of these consolidated financial statements.


Managing Director
Mohammed Al Saleem

 2
Authorized Board Representative
Mohammed Al Saleem



Chief Finance Officer
Yusuf Sulaiman


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

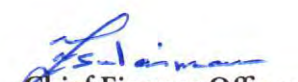
CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2016

| | Notes | 2016 SR | 2015 SR |
|--|-------|----------------------|----------------------|
| REVENUE: | | | |
| Operating revenue, net | | 1,045,947,795 | 810,118,673 |
| Sales | | 198,832,871 | 189,964,089 |
| | 24 | <u>1,244,780,666</u> | <u>1,000,082,762</u> |
| DIRECT COSTS: | | | |
| Cost of operations | | (524,728,316) | (416,942,086) |
| Cost of sales | | (145,067,377) | (136,335,221) |
| | | <u>(669,795,693)</u> | <u>(553,277,307)</u> |
| GROSS PROFIT | 24 | <u>574,984,973</u> | <u>446,805,455</u> |
| EXPENSES | | | |
| Selling and distribution | 21 | (141,732,650) | (93,769,345) |
| General and administration | 22 | (145,937,553) | (117,475,255) |
| Amortisation of other intangible assets | 12 | (560,817) | (657,655) |
| | | <u>(288,231,020)</u> | <u>(211,902,255)</u> |
| INCOME FROM MAIN OPERATIONS | | <u>286,753,953</u> | <u>234,903,200</u> |
| Share in results of an associate | 7 | 3,038,893 | 3,323,055 |
| Other income | 23 | 12,415,726 | 8,364,900 |
| Financial charges | | (6,536,746) | (7,389,052) |
| INCOME BEFORE ZAKAT AND NON-CONTROLLING INTERESTS | | <u>295,671,826</u> | <u>239,202,103</u> |
| Non-controlling interests | 20 | (17,965,241) | (14,316,236) |
| INCOME BEFORE ZAKAT | | <u>277,706,585</u> | <u>224,885,867</u> |
| Zakat | 16 | (21,823,357) | (16,083,972) |
| NET INCOME FOR THE YEAR | | <u>255,883,228</u> | <u>208,801,895</u> |
| EARNING PER SHARE: | | | |
| From main operations | 19 | <u>5.74</u> | <u>4.70</u> |
| From net income | 19 | <u>5.12</u> | <u>4.18</u> |
| Weighted average number of outstanding shares | 17 | <u>50,000,000</u> | <u>50,000,000</u> |


Managing Director
Mohammed Al Saleem


Authorized Board Representative
Mohammed Al Saleem


Chief Finance Officer
Yusuf Sulaiman

The attached notes 1 to 29 form part of these consolidated financial statements.


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


CONSOLIDATED STATEMENT OF CASH FLOWS


Year ended 31 December 2016

| | 2016 SR | 2015 SR |
|--|---------------------------|--------------------------|
| OPERATING ACTIVITIES | | |
| Income before zakat and non-controlling interests | 295,671,826 | 239,202,103 |
| Adjustments for: | | |
| Depreciation | 75,532,757 | 53,671,427 |
| Amortisation of other intangible assets | 560,817 | 657,655 |
| Share in results of an associate | (3,038,893) | (3,323,055) |
| Employees' terminal benefits, net | 7,283,019 | 10,011,970 |
| Financial charges | 6,536,746 | 7,389,052 |
| Gain on disposals of property and equipment | (1,619,238) | (288,985) |
| | <u>380,927,034</u> | <u>307,320,167</u> |
| Changes in operating assets and liabilities: | | |
| Accounts receivable and prepayments | (71,836,333) | (51,398,448) |
| Inventories | (16,812,586) | (31,723,376) |
| Accounts payable and accruals | 35,939,126 | 3,519,996 |
| Cash from operations | 328,217,241 | 227,718,339 |
| Financial charges paid | (6,536,746) | (7,389,052) |
| Zakat paid | (15,326,953) | (12,999,905) |
| Net cash from operating activities | <u>306,353,542</u> | <u>207,329,382</u> |
| INVESTING ACTIVITIES | | |
| Term deposit | 120,000,000 | (50,000,000) |
| Purchase of property and equipment | (240,054,343) | (168,414,991) |
| Proceeds from disposal of property and equipment | 3,580,213 | 539,555 |
| Additions to other intangible assets | (1,004,728) | (1,025,585) |
| Dividends received from an associate | - | 3,109,482 |
| Advances to contractors | (54,088,224) | (23,308,370) |
| Net cash used in investing activities | <u>(171,567,082)</u> | <u>(239,099,909)</u> |
| FINANCING ACTIVITIES | | |
| Proceeds from short term loans | 1,410,000 | - |
| Repayments of short term loans | (352,500) | (1,907,525) |
| Proceeds from term loans | 145,875,438 | 148,964,408 |
| Repayments of term loans | (128,019,695) | (110,948,783) |
| Dividends paid | (100,000,000) | (100,000,000) |
| Movement in non-controlling interests | (9,800,000) | (4,900,000) |
| Net cash used in financing activities | <u>(90,886,757)</u> | <u>(68,791,900)</u> |
| INCREASE (DECREASE) IN BANK BALANCES AND CASH | 43,899,703 | (100,562,427) |
| Bank balances and cash at the beginning of the year | 81,002,809 | 181,565,236 |
| BANK BALANCES AND CASH AT THE END OF THE YEAR | <u>124,902,512</u> | <u>81,002,809</u> |
| NON-CASH TRANSACTIONS: | | |
| Board of directors' remuneration | 1,400,000 | 1,400,000 |
| Transfer from short term loans to term loans | - | 17,176,163 |
| Transfer from advances to contractors to construction work in progress (note 10) | 6,537,555 | 15,222,744 |

The attached notes 1 to 29 form part of these consolidated financial statements.


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)
and its Subsidiaries**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended 31 December 2016

EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY

| | <i>Share capital</i> SR | <i>Statutory reserve</i> SR | <i>Retained earnings</i> SR | <i>Proposed dividends</i> SR | <i>Total</i> SR |
|------------------------------------|----------------------------|------------------------------------|------------------------------------|-------------------------------------|----------------------|
| Balance at 31 December 2014 | 500,000,000 | 123,564,050 | 303,680,802 | 100,000,000 | 1,027,244,852 |
| Net income for the year | - | - | 208,801,895 | - | 208,801,895 |
| Transfer to statutory reserve | - | 20,880,190 | (20,880,190) | - | - |
| Dividends (note 18) | - | - | - | (100,000,000) | (100,000,000) |
| Proposed dividends (note 18) | - | - | (100,000,000) | 100,000,000 | - |
| Board of directors' remuneration | - | - | (1,400,000) | - | (1,400,000) |
| Balance at 31 December 2015 | 500,000,000 | 144,444,240 | 390,202,507 | 100,000,000 | 1,134,646,747 |
| Net income for the year | - | - | 255,883,228 | - | 255,883,228 |
| Transfer to statutory reserve | - | 25,588,323 | (25,588,323) | - | - |
| Dividends (note 18) | - | - | - | (100,000,000) | (100,000,000) |
| Proposed dividends (note 18) | - | - | (125,000,000) | 125,000,000 | - |
| Board of directors' remuneration | - | - | (1,400,000) | - | (1,400,000) |
| Balance at 31 December 2016 | 500,000,000 | 170,032,563 | 494,097,412 | 125,000,000 | 1,289,129,975 |



**Managing Director
Mohammed Al Saleem**



**Authorized Board Representative
Mohammed Al Saleem**



**Chief Finance Officer
Yusuf Sulaiman**

The attached notes 1 to 29 form part of these consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

1 ACTIVITIES

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

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

Branch Commercial registration

| <u>number</u> | <u>Date</u> | <u>Location</u> |
|---------------|-------------|-----------------|
| 2050086573 | 27/11/1433 | Dammam |
| 2055004626 | 09/03/1421 | Jubail |
| 4650029967 | 06/05/1421 | Madina |
| 1010295838 | 09/11/1431 | Riyadh |
| 2053017288 | 20/12/1427 | Qatif |
| 2250111494 | 20/04/1438 | Dammam |
| 2050046891 | 18/09/1425 | Dammam |
| 2055006727 | 19/09/1425 | Jubail |
| 4650030759 | 11/11/1421 | Madina |
| 2051032510 | 27/03/1427 | Khobar |
| 2053018168 | 14/08/1428 | Qatif |
| 2050111780 | 25/05/1438 | Dammam |

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

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

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

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

2 BASIS OF PREPERATION

The Ministry of Commerce and Investment commenced the implementation of the new Companies' Regulations effective 25 Rajab 1437H corresponding to 2 May 2016 ("the effective date"). The new regulations shall replace the Companies' Regulations promulgated by Royal Decree No. M/6 dated 22 Rabi'I 1385H and it shall supersede all provisions that are inconsistent therewith. Companies existing as at the effective date of the regulations shall make all necessary amendments to their By Laws to comply with the requirements of the provisions of the new Companies' Regulations within a period of one year of the effective date of the Companies' Regulations.

The Company is in the process to make the necessary amendments to the Company's By Laws as required by the new regulations. Management intends to complete all formalities within the grace period granted by the new regulations (24 Rajab 1438H corresponding to 21 April 2017). Accordingly, these financial statements have been prepared in accordance with the old Companies' Regulations.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

Accounting convention

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

Use of estimates

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

Accounts receivable

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

Inventories

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

Investment in an associate

The investment in an associate is accounted for using equity method of accounting.

Property and equipment/depreciation

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

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

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

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

Other intangible assets

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

Impairment of non-current assets

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

Accounts payable and accruals

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

Provision

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

Zakat

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

Employees' terminal benefits

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

Statutory reserve

As required by Saudi Arabian Regulations for Companies, 10% of the net income for the year has been transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the share capital. The reserve is not available for distribution.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue

Operating revenue

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

Sales

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

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

Operating lease

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

Expenses

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

Foreign currencies

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

Borrowing cost

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

Segmental reporting

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

4 TERM DEPOSIT

Term islamic deposit is placed with a local bank with maturities of more than three months when purchase and earn income at an average rate 1.05% to 1.1% (2015: same)

5 ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | 2016 SR | 2015 SR |
|---|--------------------|--------------------|
| Accounts receivable, net | 283,229,278 | 203,529,754 |
| Retentions receivable | 23,408,298 | 27,198,012 |
| Prepaid expenses | 16,948,925 | 15,267,956 |
| Advances to suppliers | 12,179,812 | 13,155,319 |
| Amounts due from related parties (note 8) | 1,177,552 | 5,388,016 |
| Others | 6,171,281 | 6,739,756 |
| | <u>343,115,146</u> | <u>271,278,813</u> |

At 31 December 2016, accounts receivable at nominal value of SR 194,315,951 (2015: SR 66,790,159) were impaired. Movements in the allowance for doubtful debts, provision for estimated rejection and other credit sales provisions were as follows:

| | 2016 SR | 2015 SR |
|------------------------------|--------------------|-------------------|
| At the beginning of the year | 66,790,159 | 63,208,868 |
| Provided during the year | 167,305,947 | 121,432,421 |
| Written off | (39,780,155) | (117,851,130) |
| | <u>194,315,951</u> | <u>66,790,159</u> |

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

6 INVENTORIES

| | 2016 SR | 2015 SR |
|--|--------------------|--------------------|
| Pharmaceuticals and cosmetic materials | 58,399,682 | 52,342,255 |
| Surgical and consumable tools | 60,347,597 | 50,294,321 |
| Spare parts and consumables | 5,594,920 | 4,893,037 |
| | <u>124,342,199</u> | <u>107,529,613</u> |

7 INVESTMENT IN AN ASSOCIATE

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

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

| | 2016 SR | 2015 SR |
|------------------------------|-------------------|------------------|
| At the beginning of the year | 8,743,603 | 8,530,030 |
| Share in results | 3,038,893 | 3,323,055 |
| Dividends | - | (3,109,482) |
| | <u>11,782,496</u> | <u>8,743,603</u> |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

8 RELATED PARTIES' TRANSACTIONS AND BALANCES

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

| <i>Related party</i> | <i>Relationship</i> | <i>Nature of transactions</i> | <i>Amounts of transaction</i> | | <i>Balance</i> | |
|--|---------------------|-------------------------------|-------------------------------|--------------------------|--------------------------|--------------------------|
| | | | <i>2016</i> <i>SR</i> | <i>2015</i> <i>SR</i> | <i>2016</i> <i>SR</i> | <i>2015</i> <i>SR</i> |
| <i>a) Amounts due from related parties shown in note 5:</i> | | | | | | |
| Advance Medical Project Company ("AMPC") | Associate | Revenue | 8,663,710 | 9,005,650 | | |
| | | Other services (note 23) | 433,976 | 423,109 | 407,551 | 4,562,106 |
| Other | Affiliates | Other | 670,811 | 703,889 | 770,001 | 825,910 |
| | | | | | 1,177,552 | 5,388,016 |
| <i>b) Amounts due to related parties shown in note 13:</i> | | | | | | |
| Al-Mouwasat International Company | Affiliate | Purchases and services | 29,960,413 | 30,807,056 | 5,924,999 | 4,007,829 |
| Magrabi Hospitals & Centers Company Ltd. | Affiliate | Expenses | 4,236,890 | 3,842,537 | 159,072 | 359,969 |
| | | | | | 6,084,071 | 4,367,798 |

During the year the Group incurred management remuneration of SR 18.6 million (2015: SR 12.3 million).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

9 PROPERTY AND EQUIPMENT

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

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

| | <i>Plots of land</i> | <i>Buildings</i> | <i>Building system, fixtures and furniture</i> | <i>Medical equipment and tools</i> | <i>Motor vehicles</i> | <i>IT hardware and software</i> | <i>Construction work in progress</i> | <i>Total 2016</i> | <i>Total 2015</i> |
|----------------------------------|----------------------|--------------------|--|------------------------------------|-----------------------|---------------------------------|--------------------------------------|----------------------|----------------------|
| | SR | SR | SR | SR | SR | SR | SR | SR | SR |
| <i>Cost:</i> | | | | | | | | | |
| At the beginning of the year | 283,568,596 | 545,730,930 | 272,291,759 | 432,673,564 | 27,046,869 | 15,339,425 | 135,005,210 | 1,711,656,353 | 1,534,763,876 |
| Additions | - | 2,019,102 | 19,718,238 | 51,840,949 | 5,064,247 | 5,437,216 | 162,512,146 | 246,591,898 | 183,637,735 |
| Transfers | - | 76,975,291 | 44,738,774 | 19,736,934 | - | 2,235,759 | (143,686,758) | - | - |
| Disposals | - | (16,325) | (3,258,677) | (9,906,220) | (2,862,534) | - | (1,116,274) | (17,160,030) | (6,745,258) |
| At the end of the year | 283,568,596 | 624,708,998 | 333,490,094 | 494,345,227 | 29,248,582 | 23,012,400 | 152,714,324 | 1,941,088,221 | 1,711,656,353 |
| <i>Accumulated Depreciation:</i> | | | | | | | | | |
| At the beginning of the year | - | 144,071,121 | 118,084,440 | 212,485,353 | 18,355,289 | 6,448,115 | - | 499,444,318 | 452,267,579 |
| Charge for the year | - | 17,689,400 | 18,304,034 | 33,445,604 | 4,262,803 | 1,830,916 | - | 75,532,757 | 53,671,427 |
| Disposals | - | - | (3,038,368) | (9,487,132) | (2,673,555) | - | - | (15,199,055) | (6,494,688) |
| At the end of the year | - | 161,760,521 | 133,350,106 | 236,443,825 | 19,944,537 | 8,279,031 | - | 559,778,020 | 499,444,318 |
| <i>Net book amounts:</i> | | | | | | | | | |
| At 31 December 2016 | 283,568,596 | 462,948,477 | 200,139,988 | 257,901,402 | 9,304,045 | 14,733,369 | 152,714,324 | 1,381,310,201 | |
| At 31 December 2015 | 283,568,596 | 401,659,809 | 154,207,319 | 220,188,211 | 8,691,580 | 8,891,310 | 135,005,210 | | 1,212,212,035 |

Construction work in progress represents costs incurred to construct new hospitals in Alkhobar city and expanding existing hospitals in Dammam, Madinah and Jubail. During the year, borrowing costs of SR 7.25 million (2015: SR 2.8 million) were capitalised.

At 31 December 2016 plots of land amounting to SR 56.1 million (2015: SR 43.5 million) are pledged as security against term loans (note 15).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

10 ADVANCE TO CONTRACTORS

The movement in advance to contractors was as follows:

| | 2016 SR | 2015 SR |
|---|-------------------|-------------------|
| At the beginning of the year | 23,308,370 | 15,222,744 |
| Paid during the year | 54,088,224 | 23,308,370 |
| Transfer to construction work in progress | (6,537,555) | (15,222,744) |
| At the end of the year | <u>70,859,039</u> | <u>23,308,370</u> |

11 GOODWILL

On 24 July 2006, the Group acquired 51% of the voting shares of Eastern Medical Services Company Limited, an unlisted company registered in the Kingdom of Saudi Arabia ("EMS"). The Group performed its annual impairment test in December 2016 and compared carrying value to their estimated recoverable amount based on appropriate method. The recoverable amount of the EMS is determined based on a value in use calculation using cash flow projection from financial budget approved by senior management covering a five-year period. As a result of the analysis, the management did not identify an impairment loss.

12 OTHER INTANGIBLE ASSETS

| | 2016 SR | 2015 SR |
|----------------------------------|------------------|------------------|
| <i>Cost:</i> | | |
| At the beginning of the year | 3,250,737 | 7,165,908 |
| Additions | 1,004,728 | 1,025,585 |
| Written off | - | (4,940,756) |
| | <u>4,255,465</u> | <u>3,250,737</u> |
| <i>Accumulated amortisation:</i> | | |
| At the beginning of the year | 2,197,355 | 6,480,456 |
| Charge for the year | 560,817 | 657,655 |
| Written off | - | (4,940,756) |
| | <u>2,758,172</u> | <u>2,197,355</u> |
| <i>Net book value</i> | | |
| 31 December | <u>1,497,293</u> | <u>1,053,382</u> |

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

13 ACCOUNTS PAYABLE AND ACCRUALS

| | 2016 SR | 2015 SR |
|---|--------------------|--------------------|
| Accounts payable | 86,363,002 | 74,029,628 |
| Accrued expenses | 75,971,606 | 41,688,602 |
| Retentions payable | 9,553,824 | 11,167,938 |
| Amounts due to related parties (note 8) | 6,084,071 | 4,367,798 |
| Advances from customers | - | 6,604,380 |
| Others | 6,105,806 | 8,880,837 |
| | <u>184,078,309</u> | <u>146,739,183</u> |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

14 SHORT TERM LOANS

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

15 TERM LOANS

| | 2016 SR | 2015 SR |
|-----------------------|---------------------------|---------------------------|
| Ministry of finance | 122,155,564 | 123,717,688 |
| Commercial banks | <u>342,812,465</u> | <u>323,394,598</u> |
| | <u>464,968,029</u> | <u>447,112,286</u> |
| Less: current portion | <u>(142,256,059)</u> | <u>(120,881,091)</u> |
| Non-current portion | <u><u>322,711,970</u></u> | <u><u>326,231,195</u></u> |

Ministry of finance loans:

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 lands (note 9) and are repayable on equal annual installments. These loans do not carry any financial charges.

Commercial banks loans:

The Group also obtained islamic loans facilities of SR 990 million from various commercial banks. These loans are secured by promissory notes and assignment of insurance and contract proceeds. The facilities are subject to commission at SIBOR plus 1.5% to 2%.

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

The following are the combined agreement amounts of next years' maturities of the term loan balances as at 31 December 2016:

| | SR |
|--------------|---------------------------|
| 2017 | <u>142,256,059</u> |
| 2018 | <u>108,987,413</u> |
| 2019 | <u>36,197,216</u> |
| 2020 | <u>24,880,588</u> |
| 2021 | <u>24,814,964</u> |
| 2022 to 2036 | <u>127,831,789</u> |
| | <u><u>464,968,029</u></u> |

16 ZAKAT

Charge for the year

| | 2016 SR | 2015 SR |
|------------------------|--------------------------|--------------------------|
| Provision for the year | <u>21,823,357</u> | <u>16,083,972</u> |
| | <u><u>21,823,357</u></u> | <u><u>16,083,972</u></u> |

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

16 ZAKAT (continued)

Movement in provision

The movement in zakat provision was as follows:

| | 2016 SR | 2015 SR |
|------------------------------|-------------------|-------------------|
| At the beginning of the year | 22,411,354 | 19,327,287 |
| Charge for the year | 21,823,357 | 16,083,972 |
| Paid during the year | (15,326,953) | (12,999,905) |
| At the end of the year | <u>28,907,758</u> | <u>22,411,354</u> |

Status of assessments

Zakat returns of the Company have been agreed with the General Authority of Zakat and Tax ("the GAZT") up to 2012. The zakat assessments for the years from 2013 to 2015 have been filed with the GAZT. However, the assessments have not yet been raised by GAZT.

Eastern Medical Services Company Limited

Zakat returns have been agreed with the GAZT up to 2012. The zakat assessments for the years from 2013 to 2015 have been filed with the GAZT. However, the assessments have not yet been raised by GAZT.

Specialized Medical Clinic Company Limited

Zakat returns have been agreed with the GAZT up to 2008. The zakat declarations for the years from 2009 to 2012 have been filed with the GAZT. However, the assessments have not yet been raised by GAZT.

17 SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is divided into 50 million shares (2015: 50 million shares) of SR 10 each.

18 DIVIDENDS

The board of directors at their meeting held on 5 Rabi'II 1437H (corresponding to 25 January 2016) proposed a cash dividend of SR 2.0 per share amounting to SR 100 million for the year ended 31 December 2015 which was subsequently approved by the shareholders in the General Assembly Meeting held on 26 Jumada'II 1437H (corresponding to 4 April 2016) (31 December 2015: the Board of Directors at their meeting held on 7 Rabi'II 1436H (corresponding to 27 January 2015) proposed a cash dividend of SR 2.0 per share amounting to SR 100 million for the year ended 31 December 2014 which was subsequently approved by the shareholders in the General Assembly Meeting held on 12 Jamadah'II 1436H (corresponding to 1 April 2015)).

Further, the board of directors at their meeting held on 25 Rabi'II 1438H (corresponding to 23 January 2017) proposed a cash dividend of SR 2.5 per share amounting to SR 125 million for the year ended 31 December 2016 for approval of the General Assembly Meeting.

19 EARNING PER SHARE

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

20 NON-CONTROLLING INTERESTS

Non-controlling interests represent 49% in Eastern medical services company Limited and 5% in Specialized Medical Clinic Company Limited.

The movements in non-controlling interests are as follows:

| | 2016 SR | 2015 SR |
|------------------------------|-------------------|-------------------|
| At the beginning of the year | 69,740,137 | 60,323,901 |
| Share in results | 17,965,241 | 14,316,236 |
| Net movement | (9,800,000) | (4,900,000) |
| At the end of the year | <u>77,905,378</u> | <u>69,740,137</u> |

21 SELLING AND DISTRIBUTION EXPENSES

| | 2016 SR | 2015 SR |
|------------------------------|--------------------|-------------------|
| Allowance for doubtful debts | 84,669,755 | 52,116,848 |
| Employees' costs | 40,498,097 | 33,907,983 |
| Advertising | 16,564,798 | 7,744,514 |
| | <u>141,732,650</u> | <u>93,769,345</u> |

22 GENERAL AND ADMINISTRATION EXPENSES

| | 2016 SR | 2015 SR |
|------------------------------|--------------------|--------------------|
| Employees' costs | 80,996,194 | 69,100,137 |
| Depreciation | 15,106,551 | 10,353,175 |
| Management bonus (note 8) | 11,839,007 | 7,933,480 |
| Executives salaries (note 8) | 5,358,750 | 2,985,000 |
| Utilities | 4,829,328 | 3,887,993 |
| Maintenance and repair | 4,693,595 | 2,325,814 |
| Support services | 3,482,594 | 3,694,624 |
| Rent | 2,274,542 | 2,568,805 |
| Others | 17,356,992 | 14,626,227 |
| | <u>145,937,553</u> | <u>117,475,255</u> |

23 OTHER INCOME

| | 2016 SR | 2015 SR |
|---|-------------------|------------------|
| Rental income | 2,081,033 | 2,051,894 |
| Suppliers prompt payment discount | 1,801,454 | 1,927,757 |
| Gain on disposals of property and equipment | 1,619,238 | 288,985 |
| Services provided to an associate (note 8) | 433,976 | 423,109 |
| Others | 6,480,025 | 3,673,155 |
| | <u>12,415,726</u> | <u>8,364,900</u> |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

24 SEGMENTAL INFORMATION

Business segments:

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

| | <i>In-patient</i> | <i>Out-patient</i> | <i>Pharmaceuticals</i> | <i>Total</i> |
|--|-------------------|--------------------|------------------------|---------------|
| | <i>SR</i> | <i>SR</i> | <i>SR</i> | <i>SR</i> |
| <i>For the year ended 31 December 2016</i> | | | | |
| Revenue | 510,275,076 | 535,672,720 | 198,832,870 | 1,244,780,666 |
| Gross profit | 254,745,874 | 266,473,605 | 53,765,494 | 574,984,973 |
| <i>As at 31 December 2016</i> | | | | |
| Property and equipment | 676,841,998 | 511,084,775 | 193,383,428 | 1,381,310,201 |
| Total assets | 1,029,658,102 | 777,496,935 | 297,024,849 | 2,104,179,886 |
| Total liabilities | 337,211,690 | 271,646,338 | 128,286,505 | 737,144,533 |
| <i>For the year ended 31 December 2015</i> | | | | |
| Revenue | 353,157,105 | 456,961,569 | 189,964,088 | 1,000,082,762 |
| Gross profit | 171,398,476 | 221,778,112 | 53,628,867 | 446,805,455 |
| <i>As at 31 December 2015</i> | | | | |
| Property and equipment | 569,739,656 | 448,518,453 | 193,953,926 | 1,212,212,035 |
| Total assets | 879,604,824 | 692,454,861 | 299,439,940 | 1,871,499,625 |
| Total liabilities | 306,872,298 | 246,832,066 | 113,408,377 | 667,112,741 |

Geographical segments:

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

Mouwasat Medical Services Company and its Subsidiaries and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

25 CAPITAL COMMITMENTS

The board of directors have authorised future capital expenditure amounting to SR 368.8 million (2015: SR 302.2 million) relating to certain expansion projects.

26 CONTINGENT LIABILITIES

The Group's bankers have given guarantees, on behalf of the Group, amounting to SR 1.8 million (2015: SR 14 million) mainly in respect of performance guarantees to customers.

27 OPERATING LEASE

The Group has operating leases for rental of certain properties which generally have a term of 21 years (2015: same). The rental charge for the year amounted to SR 4.2 million (2015: SR 4.5 million).

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

| | |
|---------------------|-------------------|
| | <i>SR</i> |
| Within one year | 5,125,740 |
| For next five years | 17,118,165 |
| | <u>22,243,905</u> |

28 RISK MANAGEMENT

Commission rate risk

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

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks and with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and ensuring close follow-ups. The Company provides services to a large number of customers. Its 5 largest customers account for 82 % of outstanding trade accounts receivable at 31 December 2016 (2015: 68 %).

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Group limits its liquidity risk by ensuring bank facilities are available. The Group's terms of sales require amounts to be paid within 30 to 90 days of the date of sale. Trade payables are normally settled within 60 to 90 days of the date of purchase.

Mouwasat Medical Services Company and its Subsidiaries and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

28 RISK MANAGEMENT (continued)

Currency risk

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

29 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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