

**MIDDLE EAST HEALTHCARE COMPANY  
MEAHCO  
A PUBLIC JOINT STOCK COMPANY  
JEDDAH - KINGDOM OF SAUDI ARABIA**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2016**



**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
MIDDLE EAST HEALTHCARE COMPANY  
(MEAHCO)**

We have audited the accompanying consolidated financial statements of Middle East Healthcare Company (the "Company"), a Public Joint Stock Company, which comprise the consolidated balance sheet as at December 31, 2016 and the consolidated statements of income, changes in shareholders' equity and the statement of cash flows for the year then ended, together with the notes from (1) to (19) forming part thereof.

***Management's responsibility for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the requirements of accounting standards as applicable in the Kingdom of Saudi Arabia, Article 123 of the Companies law and the Articles of Association of the Company. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances and submitted to us together with all the information and explanations which we required.

***Auditors' responsibility***

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 as applicable in the Kingdom of Saudi Arabia. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

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

- Present fairly, in all material respects the consolidated financial position of Middle East Healthcare Company – (A Public Joint Stock Company) as of December 31, 2016 and the consolidated results of its operations and its cash flows for the year then ended in accordance with the accounting standards as applicable in the Kingdom of Saudi Arabia appropriate to the circumstances of the company.
- Comply with the requirements of the Companies Regulations and the Company's Articles of Association with respect to the preparation and presentation of the consolidated financial statements.

**Emphasis of Matter**

As explained in Note (1) and (7) on March 29, 2016, the Company shares were listed in the Saudi Stock Exchange (Tadawul) after obtaining the approval from Capital Market Authority to convert the Company from Closed Joint Stock Company to a Public Joint Stock Company.

Jeddah  
March 14, 2017



Aldar Audit Bureau  
Abdullah Al Basri & Co.


*Waheed Salah Bazzaz*  
Waheed Salah Bazzaz  
Certified Public Accountant  
License No. 247

**MIDDLE EAST HEALTHCARE COMPANY (MEAHCO)**  
**A PUBLIC JOINT STOCK COMPANY**

**CONSOLIDATED BALANCE SHEET**  
**AS AT DECEMBER 31, 2016**

	NOTE	2016 SR.	2015 SR.
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		155,090,776	55,800,376
Accounts receivable		1,144,464,369	874,434,035
Medical supplies		90,647,345	77,004,440
Prepaid expenses and other receivables		41,107,539	36,571,212
Due from related parties	4	1,687,368	26,838,955
<b>Total current assets</b>		<b>1,432,997,397</b>	<b>1,070,649,018</b>
<b>Non-current assets</b>			
Property, plant and equipment - Net	5	849,761,947	838,932,340
Construction in progress		226,705,383	155,879,487
<b>Total non-current assets</b>		<b>1,076,467,330</b>	<b>994,811,827</b>
<b>Total assets</b>		<b>2,509,464,727</b>	<b>2,065,460,845</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable		238,200,809	188,161,768
Accrued expenses and other accounts payable		71,613,716	96,138,779
Due to related parties	4	57,900,346	8,384,795
Current portion of long term accounts payables		10,174,119	9,001,838
Short term loans and current portion of long term loans	6	187,527,778	95,950,000
<b>Total current liabilities</b>		<b>565,416,768</b>	<b>397,637,180</b>
<b>Non-current liabilities</b>			
Provision for end of service benefits		178,784,873	153,855,339
Long term loans	6	145,113,182	73,293,182
Long term - Accounts payable		20,745,781	26,987,973
<b>Total non-current liabilities</b>		<b>344,643,836</b>	<b>254,136,494</b>
<b>Total liabilities</b>		<b>910,060,604</b>	<b>651,773,674</b>
<b>SHAREHOLDERS' EQUITY</b>			
Capital	7	920,400,000	920,400,000
Statutory reserve	8	124,819,329	88,633,324
Retained earnings		494,832,986	343,615,858
<b>Total shareholders' equity</b>		<b>1,540,052,315</b>	<b>1,352,649,182</b>
Non-controlling interests	9	59,351,808	61,037,989
<b>Total equity</b>		<b>1,599,404,123</b>	<b>1,413,687,171</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,509,464,727</b>	<b>2,065,460,845</b>

  
**Sobhi Abdelhalil Batterjee**  
 Chairman

  
**Mohammed Mamoun Al Najjar**  
 Chief Executive Officer

  
**Alama Varghese Thomas**  
 Chief Financial Officer

*The attached notes are an integral part of these consolidated financial statements*



**MIDDLE EAST HEALTHCARE COMPANY (MEHCO)**  
**A PUBLIC JOINT STOCK COMPANY**

**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	NOTE	2016 SR.	2015 SR.
Total operating revenue		1,615,641,154	1,534,527,976
Cost of operating revenues	(	787,918,006)	( 724,393,232)
Gross profit		<u>827,723,148</u>	<u>810,134,744</u>
Selling and marketing expenses	(	181,309,345)	( 162,353,036)
General and administration expenses	12 (	283,576,429)	( 261,597,992)
Total operating expenses	(	<u>464,885,774</u>	( 423,951,028)
Net operating profit		362,837,374	386,183,716
Other income		16,421,223	16,236,068
Depreciation	(	9,176,854)	( 7,981,707)
Net profit for the year before financial charges		<u>370,081,743</u>	<u>394,438,077</u>
Financial charges	(	11,327,297)	( 4,470,416)
Net profit for the year before zakat and income tax		<u>358,754,446</u>	<u>389,967,661</u>
Zakat & Income tax for subsidiary	13 (	47,860)	( 2,116)
Net profit for the year before non-controlling interests		<u>358,706,586</u>	<u>389,965,545</u>
Non-controlling interests		3,153,461	283,757
Net profit for the year		<u><u>361,860,047</u></u>	<u><u>390,249,302</u></u>
<b>EARNINGS PER SHARE (Saudi Riyal) 10</b>			
Earnings per share from main operation		3.75	4.06
Earnings per share from net profit for the year		3.93	4.24
Average number of shares		92,040,000	92,040,000

  
**Sobhi Abduljalil Batterjee**  
 Chairman

  
**Mohammed Mamoun Al Najjar**  
 Chief Executive Officer

  
**Alarma Varghese Thomas**  
 Chief Financial Officer

*The attached notes are an integral part of these consolidated financial statements*

**MIDDLE EAST HEALTHCARE COMPANY (MEAHCO)**  
**A PUBLIC JOINT STOCK COMPANY**

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Capital	Statutory reserve	Retained earnings	Total
	SR.	SR.	SR.	SR.
Balance as at 31/12/2014	767,000,000	49,608,394	323,144,448	1,139,752,842
Retained earnings capitalized	153,400,000		( 153,400,000)	
Net profit for the year	--	--	390,249,302	390,249,302
Profit transferred to statutory reserve		39,024,930	( 39,024,930)	--
Dividend distributed	--	--	( 165,672,000)	( 165,672,000)
Prior year adjustments	--	--	( 920,343)	( 920,343)
Zakat and income tax	--	--	( 10,760,619)	( 10,760,619)
<b>Balance as at 31/12/2015</b>	<b>920,400,000</b>	<b>88,633,324</b>	<b>343,615,858</b>	<b>1,352,649,182</b>
Net profit for the year	--	--	361,860,047	361,860,047
Profit transferred to statutory reserve		36,186,005	( 36,186,005)	--
Refund of income tax			13,552,448	13,552,448
Dividend distributed	--	--	( 184,080,000)	( 184,080,000)
Zakat and income tax	--	--	( 3,929,362)	( 3,929,362)
<b>Balance as at 31/12/2016</b>	<b>920,400,000</b>	<b>124,819,329</b>	<b>494,832,986</b>	<b>1,540,052,315</b>

  
**Sobhi Abduljalil Bacterjee**  
 Chairman

  
**Mohammed Mamoun Al Najjar**  
 Chief Executive Officer

  
**Alama Varghese Thomas**  
 Chief Financial Officer

*The attached notes are an integral part of these consolidated financial statements*  
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**MIDDLE EAST HEALTHCARE COMPANY (MEHCO)**  
**A PUBLIC JOINT STOCK COMPANY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>2016</b> SR.	<b>2015</b> SR.
<b>FROM OPERATING ACTIVITIES</b>		
Net profit for the year	361,860,047	390,249,302
Adjustments for non-cash items:		
Depreciation	58,542,478	52,295,122
End of service benefits	24,929,534	17,655,027
Zakat & income tax	47,860	2,116
Net adjusted profit	445,379,919	460,201,567
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	( 270,030,334)	( 274,020,178)
Medical supplies	( 13,642,905)	( 1,126,607)
Prepaid expenses and other accounts receivable	( 4,536,327)	( 13,671,835)
Due from/to related parties	74,667,138	( 7,606,697)
Accounts payable	50,039,041	27,951,931
Accrued expenses and other accounts payable	( 24,572,923)	2,267,890
Net cash provided by operating activities	257,303,609	193,996,071
<b>FROM INVESTING ACTIVITIES</b>		
Property, plant and equipment - Net	( 69,372,085)	( 82,909,594)
Construction in progress	( 70,825,896)	( 32,088,200)
Net cash (used in) investing activities	( 140,197,981)	( 114,997,794)
<b>FROM FINANCING ACTIVITIES</b>		
Loans	163,397,778	5,797,704
Long term accounts payable	( 5,069,911)	( 1,751,537)
Prior year's adjustment	-	( 920,343)
Dividend paid	( 184,080,000)	( 165,672,000)
Non-controlling interests	( 1,686,181)	13,882,505
Refund of income tax	13,552,448	-
Zakat and income tax	( 3,929,362)	( 10,760,619)
Net cash (used in) financing activities	( 17,815,228)	( 159,424,290)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	99,290,400	( 80,426,013)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	55,800,376	136,226,389
<b>CASH AND CASH EQUIVALENTS AT ENDING OF THE YEAR</b>	155,090,776	55,800,376
<b>Non-Cash transactions:</b>		
Increase of capital from retained earnings		153,400,000

Sobhi Abduljaleel Batterjee  
Chairman

Mohammed Mamoun Al Najjar  
Chief Executive Officer

Alanna Varghese Thomas  
Chief Financial Officer

The attached notes are an integral part of these consolidated financial statements



**MIDDLE EAST HEALTHCARE COMPANY (MEAHCO)  
A PUBLIC JOINT STOCK COMPANY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the year ended December 31, 2016**

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**1. INTRODUCTION**

Middle East Healthcare Company (MEAHCO) (the "Company") was a Closed Joint Stock Company operating under Commercial Registration No. 4030149460 dated Rabie Al-Thani 06, 1425 corresponding to May 25, 2004.

On Rabia Awal 19, 1437(H) (corresponding to December 30, 2015 (G)) the Company obtained approval from Capital Market Authority ("CMA") to offer 27,612,000 shares in an Initial Public Offering and the company shares are listed in the Saudi Stock Exchange (Tadawul) on Jumada Al-Thani 20, 1437(H) (corresponding to March 29, 2016(G) see note (5). Accordingly, the Company was converted to a Public Joint Stock Company.

The main objective of the Company is managing, operating, maintaining hospitals Medical Centers, Educational Centers, Rehabilitation Centers, Physiotherapy Laboratories and X-Rays Centers, Pharmacies, construction and to buy land for the purpose of constructing medical projects.

The consolidated financial statements consists of Middle East Healthcare Company (MEAHCO) and its below entities /branches:

- Saudi German Hospital – Jeddah operating under Commercial Registration No. 4030124187 issued on dated Safar 5, 1419(H) corresponding to May 30, 1998(G).
- Saudi German Hospital – Riyadh is operating under Commercial Registration No. 1010162269 dated Rajab 24, 1421(H) corresponding to October 22, 2000(G).
- Saudi German Hospital - Aseer operating under Commercial Registration No. 5855019364 dated Dhul Hijah 28, 1420(H) corresponding to April 3, 2000(G).
- Saudi German Hospital – Madinah operating under C.R.No. 4650032396 dated Safar 18, 1423(H) corresponding to May 1, 2002(G).
- Saudi German Hospital – Dammam operating under C.R.No. 2050105713 dated Rajab 18, 1436(H) corresponding to May 7, 2015(G).
- Abdul Jaleel Ibrahim Batterjee Sons Development Co. is a branch operating in the Kingdom of Saudi Arabia under Commercial Registration No. 4030181710 dated Shaban 4, 1429H corresponding to August 5, 2008.
- National Hail Company for Healthcare Co. (NHC) is a closed Joint Stock Company registered in the Kingdom of Saudi Arabia operating under Commercial Registration No. 3350019735 issued in Hail on 2/7/1428H corresponding to 16/7/2007(G). The registered office of the Company is located in Hail, Kingdom of Saudi Arabia.

**2. BASIS OF PREPARATION**

**Statement of compliance**

The accompanying consolidated financial statements have been prepared in accordance with the Accounting Objectives and Concepts and the Standards of General Presentation and Disclosure and are in compliance with the accounting Standards issued by the Saudi Organization of Certified Public Accountants.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the company and enterprises controlled by the company. Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.



**MIDDLE EAST HEALTHCARE COMPANY (MEAHCO)**  
**A PUBLIC JOINT STOCK COMPANY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2016**

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MEAHCO owns 32.33% in NHC. As per the Hospital Management Agreement signed with NHC, NHC has been consolidated into MEAHCO.

All significant inter-company transactions and balances between group branches/company have been eliminated on consolidation.

**Basis of measurement**

The consolidated financial statements are prepared under the historical cost basis using the accrual basis of accounting and the going concern concept.

**Functional and Presentation currency**

The consolidated financial statements of the company are presented in Saudi Riyals, which is the functional currency of the company.

**Accounting records**

The company maintains its accounting records by computer.

**Uses of estimates and judgments**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the applications of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Cash and cash equivalents**

Cash and cash equivalents comprise of cash on hand, balance with banks with original maturities of less than three months.

**Account receivables**

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

**Impairment and uncollectibility of financial assets**

An assessment is made at each balance sheet date of determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of income. Impairment is determined as follows:

- a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the income statement;

**MIDDLE EAST HEALTHCARE COMPANY (MEAHCO)**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2016**

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- b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- c) For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

**Accounts payable and accruals**

Liabilities are recognized for amounts to be paid in the future for services received, whether billed by the supplier or not.

**Revenue recognition**

Income is recognized upon the delivery of services and customer acceptance, if any, or the performance of services, net of income discounts.

**Expenses**

General and administrative expenses include direct and indirect costs not specially part of direct operating expenses as required under generally accepted accounting principles. Allocations between direct operating expenses and general and administrative expenses, when required, are made on a consistent basis.

**Medical supplies**

Medical supplies are stated at the lower of cost or net realizable value. Cost is determined on weighted average basis. Provision is made for obsolete and slow-moving inventory items.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight line method. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease. The estimated rates of depreciation of the principal classes of assets are 3% to 12.5% per year.

**Foreign currencies**

Transactions in foreign currencies during the year were converted to Saudi Riyals at rates prevailing at the date of the transaction. Assets and liabilities in foreign currencies were converted to Saudi Riyals at the rate of exchange prevailing at the balance sheet date. Differences in exchange are taken into profit and loss account.

**End of service benefits**

Provision for end of service benefits required by Saudi Arabian labor law, is provided in the financial statements based on the employees' length of service.

**MIDDLE EAST HEALTHCARE COMPANY (MEAHCO)**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2016**

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**Zakat and Income Tax**

The Company is subject to the regulations of the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia. Zakat and Income Tax is provided on an accrual basis. Zakat is computed on Zakat base, and Income Tax is computed on amended net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

**Leases**

Rentals in respect of operating leases are charged to the statement of income over the terms of the operating lease. Leases are classified as capital leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the Company, being the lessee. Assets held under capital leases are recognized as assets of the Company at the lower of the present value of the assets as of the date of inception of the lease.

Finance costs, which represent the difference between the total lease obligations and the lower of the present value of the future minimum lease payments are charged, to the statement of income over the terms of the relevant lease in order to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.



**MIDDLE EAST HEALTHCARE COMPANY (MEAHCO)**  
**A PUBLIC JOINT STOCK COMPANY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2016

**4. RELATED PARTIES TRANSACTIONS**

During the year, the Company transacted with the following related parties:

<u>Name</u>	<u>Relationship</u>
- Bait Al Batterjee Medical Co.	Holding Co.
- Bait Al Batterjee Medical College for Science & Technology (BMC)	Affiliate
- International Hospitals Construction Co.	Affiliate
- Bait Al Batterjee Company for Education and Training	Affiliate
- Bait Al Batterjee Pharmaceutical Industries Co.	Affiliate
- Abdul Jalil Khalid Batterjee Medical Instrumentation Maintenance Co.	Affiliate
- Gulf Youth Company For Investment & Real Estate Development – (JAN – PRO)	Affiliate
- Emirates Healthcare Development Co.	Affiliate

- a) Amount due from related parties represent services rendered in the normal course of business approved by the management as of December 31, comprised of the following:

	<u>2016</u> SR.	<u>2015</u> SR.
Bait Al Batterjee Medical Co. Ltd.	--	4,573,992
Bait Al Batterjee Company for Education and Training	396,894	762,361
Bait Al Batterjee Medical College for Science & Technology (BMC)	--	2,277,451
Bait Al Batterjee Co. for Fitness – Gold's Gym	--	424,431
Emirates Healthcare Development Co.	1,290,474	18,800,720
<b>Total</b>	<u>1,687,368</u>	<u>26,838,955</u>

- b) Amount due to related parties represent services in the normal course of business approved by the management as of December 31, comprised of the following:

	<u>2016</u> SR.	<u>2015</u> SR.
Bait Al Batterjee Pharmaceutical Industries Co.	5,615,667	2,353,821
Abdul Jalil Khalid Batterjee Medical Instrumentation Maintenance Co.	1,596,371	1,283,609
International Hospital Construction Co. Ltd.	50,688,308	4,747,365
<b>Total</b>	<u>57,900,346</u>	<u>8,384,795</u>

**MIDDLE EAST HEALTHCARE COMPANY (MEAHCO)**  
**A PUBLIC JOINT STOCK COMPANY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2016**

**5. PROPERTY, PLANT AND EQUIPMENTS**

a) This item consists of the following:

	Balance as at <u>December 31,</u> <u>2015</u> SR.	Additions SR.	Deletion/ Adjustments SR.	Balance as at <u>December 31,</u> <u>2016</u> SR.
<b><u>COST</u></b>				
Land	181,244,120	-	-	181,244,120
Buildings	804,735,527	11,109,776	4,137	815,841,166
Medical equipment	561,573,309	48,405,551	8,937,231	601,041,629
Motor vehicles	9,641,796	232,410	109,156	9,765,050
Non-medical equipment	28,915,034	1,373,238	725,873	29,562,399
Office furniture & equipments	112,786,550	6,883,226	15,382,340	104,287,436
Kitchen, Laundry & workshop equipments	10,343,455	716,608	890,404	10,169,659
A.C. Plant and equipment	23,548,674	614,505	467,729	23,695,450
Electrical equipment	33,358,387	498,891	166,537	33,690,741
Non consumable items	2,796,415	939,419	676,634	3,059,200
<b>Total</b>	<b>1,768,943,267</b>	<b>70,773,624</b>	<b>27,360,041</b>	<b>1,812,356,850</b>
<b><u>ACCUMULATED DEPRECIATION</u></b>				
Buildings	375,746,647	21,188,495	1,586	396,933,556
Medical equipment	386,266,393	27,837,615	8,253,031	405,850,977
Motor vehicles	5,344,371	680,591	109,155	5,915,807
Non-medical equipment	20,238,834	1,346,621	581,818	21,003,637
Office furniture & equipments	84,068,374	5,071,997	15,073,988	74,066,383
Kitchen, Laundry & workshop equipments	7,481,484	414,393	851,845	7,044,032
A.C. Plant and equipment	20,764,854	372,638	448,837	20,688,655
Electrical equipment	28,474,895	589,700	145,992	28,918,603
Non consumable items	1,625,075	1,040,428	492,250	2,173,253
<b>Total</b>	<b>930,010,927</b>	<b>58,542,478</b>	<b>25,958,502</b>	<b>962,594,903</b>
<b>Net Book Value</b>	<b>838,932,340</b>			<b>849,761,947</b>

b) The aforementioned property including land, buildings and equipment of Saudi German Hospital – Riyadh, Madinah and Hail are mortgaged with Ministry of Finance. SGH Jeddah and SGH Aseer land and buildings are free from any mortgage.



**MIDDLE EAST HEALTHCARE COMPANY (MEAHCO)**  
**A PUBLIC JOINT STOCK COMPANY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2016

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**6. LOANS**

6.1 The followings are the loans obtained from the Ministry of Finance, KSA:

- a) Finance charges free loan for SGH - Madinah Hospital, this loan transferred from Bait Al Batterjee Medical Co. (a related party) to the Company amounted to SR. 49,938,182 to be repaid in sixteen equal annual installments at SR. 3,125,000 starting from 21/12/1427H corresponding to 21/1/2007. SGH - Madinah land, building & equipments are mortgaged to the Ministry of Finance. The net amount is SR 15,563,182 (SR 18,688,182 for 2015).
  - b) Finance charges free loan for SGH - Riyadh Hospital loan transferred from Bait Al Batterjee and Zoheir Ahmed Al Sibae (a related party) to the company amounted to SR. 18,750,000. The total amount obtained was SR. 50,000,000 to be repaid in sixteen equal installments of SR. 3,125,000 each started from Safar 15, 1426H corresponding to March 26, 2005. SGH - Riyadh land, building & equipments are mortgaged to the Ministry of Finance. The net amount is SR. 9,375,000 (SR. 12,500,000 for 2015).
  - c) Finance charges free loan to support construction of Hospital - National Hail Company for Healthcare (Subsidiary), the total disburseable amount in this respect is SR 69,650,000 which is to be received based on construction progress to the satisfaction of the Ministry of Finance. The payment will start from the year 2018 in 20 equal annual installments. National Hail Co. for Healthcare land, building & equipments are mortgaged to the Ministry of Finance. The net amount is SR. 47,675,000 (SR. 39,605,000 for 2015).
- 6.2 Loans for SGH - Jeddah Hospital transferred from Bait Al Batterjee (a related party) to the Company amounted to SR 89,069,926. Profits paid on these loans are calculated at agreed rates. The net amount is SR. 57,250,000 (SR. 73,450,000 for 2015).
- 6.3 A loan amount of SR 50,000,000 is received on March 25, 2015 from Samba Financial Group against short term Murabaha financing agreement which is payable in 18 monthly installments equal of SR 2,777,778 the last payable amount is on September 16, 2016. The net amount is SR NIL.
- 6.4 A loan amount of SR 25,000,000 is received on March 24, 2016 from Samba Financial Group against medium term Murabaha financing agreement which is payable in 18 monthly installments equal of SR 1,388,889 the last payable amount is on September 14, 2017. The net amount is SR 12,500,000. (SR NIL for 2015)
- 6.5 A loan amount of SR 25,000,000 is received on May 17, 2016 from Samba Financial Group against medium term Murabaha financing agreement which is payable in 18 monthly installments equal of SR 1,388,889 the last payable amount is on November 08, 2017. The net amount is SR 15,277,778. (SR NIL for 2015)
- 6.6 A loan amount of SR 200,000,000 is received on July 24, 2016 from Samba Financial Group against medium term Murabaha financing agreement which is payable in 8 quarterly installments equal of SR 25,000,000 the last payable amount is on July 24, 2018. The net amount is SR 175,000,000. (SR NIL for 2015)



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- 6.7 The Company has secured a term facility- Islamic Financing Murabaha- from Samba Financial Group for part funding the construction of hospital project at Dammam, amounting to SR 300 Million. The loan will be draw down over a period of three years started from 27/12/2016 and the first repayment in June 2020 and last payment in December 2026. The loan is repayable over 14 semi-annual installments. (Balance as on 31-12-2016 is NIL).
- 6.8 The bank facilities from Note (6.2) to (6.7) are secured by the promissory note from the Company.

The outstanding balances of the said loans at the balance sheet date are SR. 332,640,960 (SR. 169,243,182 for 2015) classified in the balance sheet as follows:

	<u>2016</u> SR.	<u>2015</u> SR.
Loan from Ministry of Finance	72,613,182	70,793,182
Loans from Commercial Banks	260,027,778	98,450,000
Total	<u>332,640,960</u>	<u>169,243,182</u>
Short term and current portion of long term loan (	187,527,778)	( 95,950,000)
Long term loan	<u>145,113,182</u>	<u>73,293,182</u>

**7. CAPITAL**

The authorized, issued and paid-up capital of the Company was SR. 767,000,000 divided into 76,700,000 equal shares at SR. (10) each out of which 4,204,000 shares issued in cash and 72,496,000 shares in kind. On May 17, 2015, the Shareholders in their extraordinary General meeting approved the increase of Capital and obtained the approval of the Ministry of Commerce to be 92,040,000 shares of SR 10 each amounting to SR 920,400,000 by issuance of 1 bonus share for every 5 shares held.

The Article of Association of the Company was amended and duly authorized to reflect the change in capital.

On December 30, 2015 the company obtained approval from Capital Market Authority ("CMA") to offer 27,612,000 shares representing 30% of the company's share capital in an Initial Public Offering and these shares were offered to the public. Accordingly the shareholders diluted their shareholding to the extent of 30%. The company shares are listed in the Saudi Stock Exchange (Tadawul) on March 29, 2016.

**8. STATUTORY RESERVE**

In accordance with the Regulations for Companies in Saudi Arabia, the Company establishes a statutory reserve by the appropriation of 10% of net income until the reserve equals 30% of the share capital. This reserve is not available for dividend distribution.

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**9. NON- CONTROLLING INTERESTS**

This item represents 67.67% shareholding by other shareholders in National Hail Company for Healthcare Co. and the Company holds 32.33% shares.

**10. EARNINGS PER SHARE**

Earnings per share are computed by dividing the net profit for the year by the weighted average number of shares outstanding during the year.

Earnings per share from the continuing main operations are computed by dividing net profit excluding other income for the year by the weighted average number of shares outstanding during the year.

**11. DIVIDEND DISTRIBUTION**

The board of directors at their meeting held on 19/04/2016(G) corresponding to 12/07/1437(H) proposed a cash dividend of SR 2 per share amounting to SR 184.08 million for the year ended 31 December 2015 which was subsequently approved by the shareholder in the General Assembly Meeting held on 29/06/2016(G) corresponding to 24/09/1437(H).

**12. GENERAL AND ADMINISTRATIVE EXPENSES**

This item consists of the following:

	<u>2016</u> SR.	<u>2015</u> SR.
Staff salaries and benefits	164,844,733	150,534,310
Office supplies	7,752,127	10,144,435
Staff residential expenses	18,951,015	16,268,486
Staff medical expenses	18,948,846	17,135,806
Traveling	23,992,612	23,786,489
Repair and maintenance	4,481,711	6,411,067
Postage, telephone and internet	4,921,534	3,853,372
Security	6,937,939	4,776,158
Insurance	1,521,924	1,213,619
Audit and consultancy fees	14,841,321	11,952,077
Bank charges	1,133,664	951,582
Director's remuneration	3,037,000	1,493,000
Other administrative expenses	12,212,003	13,077,591
<b>Total</b>	<u>283,576,429</u>	<u>261,597,992</u>

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**13. ZAKAT & INCOME TAX**

General Authority for Zakat & Tax (GAZT) vide approval letter dated 6/11/1437H corresponding to 9/8/2016G has granted exemption from paying income tax on the share of profits of International Finance Corporation (IFC) the foreign shareholder in MEAHCO. Accordingly, the company is not required to pay income tax from the year 2016 onwards on the share of IFC profit. An amount of SAR 13,552,448 income tax paid earlier has been credited to equity account and considered as advance paid to GAZIT which will be adjusted from future zakat & tax liability of the company.

- a) Zakat due for the company for the year 2016 is 3,929,362 and (Zakat & Tax SR. 10,760,619 for the year 2015).
- b) Zakat for subsidiary for 2016 is SR. 47,860 (SR. 2,116 for the year 2015).
- c) Zakat assessment for the years 2005 to 2015 are under process and company obtained temporary Zakat Certificate for the year 2015.

**14. FINANCIAL COMMITMENTS**

The Company has the following commitments at the balance sheet date:

	<u>2016</u> SR.	<u>2015</u> SR.
Letters of credit and guarantee	5,117,370	6,114,696

**15. BUSINESS SEGMENTS**

As per the Company's internal policy the main business is segmented into the following categories:

	<u>2016</u> SR.	<u>2015</u> SR.
In-Patient revenue	916,442,990	857,249,310
Out-Patient revenue	397,662,117	383,669,322
Pharmaceuticals revenue	280,763,359	277,022,770
Ancillary & Trading revenue - Net	20,772,688	16,586,574
<b>Total</b>	<u>1,615,641,154</u>	<u>1,534,527,976</u>



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**16. RISK MANAGEMENT**

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables.

**Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The company is subject to fluctuations in foreign exchange rates in the normal course of its business. The company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars, during the year.

**Liquidity risk**

Liquidity risk also to as funding risk is the risk that an enterprises 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 close to its fair value.

Liquidity requirements are monitored on a regular basis and the management ensures that sufficient funds are available to meet any future commitments.

**17. FAIR VALUE 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 company's financial assets consist of cash and bank balances and receivables, its financial liabilities consist of payables, accrued expenses and short and long term loans.

The fair values of financial instruments are not materially different from their carrying values.

**18. IMPAIRMENT AND SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

**Accounts receivable**

The allowance in respect of trade receivables is used to record impairment losses unless the company is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the financial asset directly. For individually significant amounts estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery basis.

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**Inventories**

Inventories are held at the lower of cost and net realizable value. When inventories become old or obsolete, an estimate is made of their net realizable value. For individually significant amounts this estimation is performed on an individual basis. Inventories which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical cost.

**Property and equipment**

The carrying value of the company's property and equipment are reviewed at each balance sheet date, to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss, being the excess of the carrying amount over the recoverable amount, is recognized. Impairment losses are recognized in the statement of income.

**19. COMPARATIVE FIGURES**

Certain figures of previous year have been reclassified to conform with the presentation in the current year.