

**AL HAMMADI DEVELOPMENT  
AND INVESTMENT COMPANY  
(A Saudi Closed Joint Stock Company)**

**Financial Statements for the year ended  
December 31, 2013 and Independent  
Auditors' Report**

AL HAMMADI DEVELOPMENT AND INVESTMENT COMPANY  
(A Saudi Closed Joint Stock Company)  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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## INDEPENDENT AUDITORS' REPORT

February 24, 2014

To the Shareholders of Al Hammadi Development and Investment Company:  
(a Saudi Closed Joint Stock Company)

### Scope of audit

We have audited the accompanying balance sheet of Al Hammadi Development and Investment Company (a Saudi Closed Joint Stock Company) (the "Company") as of December 31, 2013 and the statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes from (1) to (24) which form an integral part of the financial statements. These financial statements, which were prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

### Unqualified opinion

In our opinion, such financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and the results of its operations and its cash flows for the year then ended, in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Company; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's By-Laws with respect to the preparation and presentation of financial statements.

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**AL HAMMADI DEVELOPMENT AND INVESTMENT COMPANY**

(A Saudi Closed Joint Stock Company)

**BALANCE SHEET**

(All amounts in Saudi Riyals unless otherwise stated)

|  | Notes | As at December 31,   |                    |
|--|-------|----------------------|--------------------|
|  |       | 2013                 | 2012               |
| <b>Assets</b>                              |       |                      |                    |
| <b>Current assets</b>                      |       |                      |                    |
| Cash and cash equivalents                  | 4     | 42,198,584           | 63,437,597         |
| Accounts receivable - net                  | 5     | 136,461,270          | 106,955,812        |
| Due from related parties                   | 18    | 350,433              | 70,566             |
| Inventories                                | 6     | 15,559,826           | 15,376,280         |
| Prepayments and other assets               | 7     | 14,130,240           | 7,612,756          |
|  |       | <u>208,700,353</u>   | <u>193,453,011</u> |
| <b>Non-current assets</b>                  |       |                      |                    |
| Property and equipment - net               | 8     | 362,568,468          | 370,345,987        |
| Capital work-in-progress                   | 9     | 665,071,481          | 279,528,754        |
|  |       | <u>1,236,340,302</u> | <u>843,327,752</u> |
| <b>Total assets</b>                        |       |                      |                    |
| <b>Liabilities</b>                         |       |                      |                    |
| <b>Current liabilities</b>                 |       |                      |                    |
| Accounts payable                           |       | 32,171,519           | 32,739,578         |
| Overdraft bank accounts                    |       | 1,873,339            | -                  |
| Due to related parties                     | 18    | 706,487              | 996,639            |
| Accrued and other liabilities              | 11    | 19,553,137           | 15,240,392         |
| Provision for zakat                        | 19    | 3,608,603            | 3,463,148          |
|  |       | <u>57,913,085</u>    | <u>52,439,757</u>  |
| <b>Non-current liabilities</b>             |       |                      |                    |
| Long-term loans                            | 10    | 578,029,250          | 212,637,615        |
| Employees' termination benefits            | 12    | 14,805,253           | 9,660,181          |
|  |       | <u>650,747,588</u>   | <u>274,737,553</u> |
| <b>Total liabilities</b>                   |       |                      |                    |
| <b>Shareholders' equity</b>                |       |                      |                    |
| Share capital                              | 13    | 525,000,000          | 420,000,000        |
| Statutory reserve                          | 14    | 12,198,267           | 34,048,015         |
| Retained earnings                          |       | 48,394,447           | 114,542,184        |
| Total shareholders' equity                 |       | <u>585,592,714</u>   | <u>568,590,199</u> |
| Total liabilities and shareholders' equity |       | <u>1,236,340,302</u> | <u>843,327,752</u> |
| Contingencies and commitments              | 24    |                      |                    |

The notes on pages 6 to 20 form an integral part of these financial statements.



**AL HAMMADI DEVELOPMENT AND INVESTMENT COMPANY**  
**(A Saudi Closed Joint Stock Company)**  
**STATEMENT OF INCOME**  
 (All amounts in Saudi Riyals unless otherwise stated)

|                                     | Notes | For the year ended December 31, |                      |
|-------------------------------------|-------|---------------------------------|----------------------|
|                                     |       | 2013                            | 2012                 |
| Revenues - net                      | 15    | 434,075,699                     | 378,684,499          |
| Cost of revenues                    | 16    | <u>(248,913,513)</u>            | <u>(215,575,032)</u> |
| Gross profit                        |       | 185,162,186                     | 163,109,467          |
| <b>Operating expenses</b>           |       |                                 |                      |
| General and administrative expenses | 17    | <u>(73,067,139)</u>             | <u>(70,770,339)</u>  |
| Operating income                    |       | 112,095,047                     | 92,339,128           |
| <b>Other income (expenses)</b>      |       |                                 |                      |
| Financial charges                   |       | (319,889)                       | (1,656,867)          |
| Other - net                         |       | <u>3,927,357</u>                | <u>6,088,190</u>     |
| Income before zakat                 |       | 115,702,515                     | 96,770,451           |
| Zakat - net                         | 19    | <u>(4,200,000)</u>              | <u>(2,500,000)</u>   |
| Net income                          |       | <u>111,502,515</u>              | <u>94,270,451</u>    |
| <b>Earnings per share:</b>          |       |                                 |                      |
| Average number of shares            | 21    | <u>52,500,000</u>               | <u>52,500,000</u>    |
| Operating income                    |       | <u>2.14</u>                     | <u>1.76</u>          |
| Non-operating income - other income |       | <u>0.07</u>                     | <u>0.08</u>          |
| Net income                          |       | <u>2.12</u>                     | <u>1.80</u>          |

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**AL HAMMADI DEVELOPMENT AND INVESTMENT COMPANY**  
**(A Saudi Closed Joint Stock Company)**  
**STATEMENT OF CASH FLOW**  
(All amounts in Saudi Riyals unless otherwise stated)

|  | <u>For the year ended December 31,</u> |                          |
|--|--|--------------------------|
|  | <u>2013</u>                            | <u>2012</u>              |
| <b>Cash flows from operating activities:</b>                                   |  |                          |
| Net income   | 111,502,515                            | 94,270,451               |
| <u>Adjustments for non-cash items:</u>   |  |                          |
| Depreciation   | 13,614,163                             | 13,597,745               |
| Provision for doubtful debts   | 22,963,729                             | 25,861,356               |
| Provision for zakat  | 4,200,000                              | 2,500,000                |
| Provision for employees' termination benefits                                  | 5,444,577                              | 4,429,620                |
| <u>Changes in working capital:</u>   |  |                          |
| Accounts receivable - net  | (52,469,187)                           | (23,235,460)             |
| Due from/to related parties  | (570,019)                              | (148,749)                |
| Inventories  | (183,546)                              | (162,127)                |
| Prepayments and other current assets   | (6,517,484)                            | (1,205,716)              |
| Accounts payable   | (568,059)                              | 5,110,680                |
| Accrued and other current liabilities  | 4,312,745                              | 3,402,691                |
| Zakat paid   | (4,054,545)                            | (3,236,852)              |
| Employees' termination benefits paid   | (299,505)                              | (320,993)                |
| Net cash generated from operating activities                                   | <u>97,375,384</u>                      | <u>121,160,144</u>       |
| <b>Cash flows from investing activities:</b>                                   |  |                          |
| Purchase of property and equipment   | (5,836,644)                            | (38,351,584)             |
| Additions on capital work-in-progress  | (385,542,727)                          | (227,172,034)            |
| Net cash utilized in investing activities                                      | <u>(391,379,371)</u>                   | <u>(265,523,618)</u>     |
| <b>Cash flows from financing activities:</b>                                   |  |                          |
| Proceeds from long-term loans  | 365,391,635                            | 212,637,615              |
| Proceeds from short-term loans   | 22,201,824                             | 62,750,000               |
| Repayment of short-term loans  | (20,328,485)                           | (102,750,000)            |
| Dividends paid   | (94,500,000)                           | -                        |
| Net cash generated from financing activities                                   | <u>272,764,974</u>                     | <u>172,637,615</u>       |
| <b>Net change in cash and cash equivalents</b>                                 | <b>(21,239,013)</b>                    | <b>28,274,141</b>        |
| Cash and cash equivalents, at beginning of year                                | <u>63,437,597</u>                      | <u>35,163,456</u>        |
| <b>Cash and cash equivalents, at end of year</b>                               | <b><u>42,198,584</u></b>               | <b><u>63,437,597</u></b> |
| <b>Supplemental non-cash information:</b>                                      |  |                          |
| Transfer from retained earnings to capital to increase share capital (Note 14) | <u>72,000,000</u>                      | <u>120,000,000</u>       |
| In-kind dividends paid (Note 14)   | <u>33,000,000</u>                      | <u>-</u>                 |

The notes on pages 6 to 20 form an integral part of these financial statements.

**AL HAMMADI DEVELOPMENT AND INVESTMENT COMPANY**  
**(A Saudi Closed Joint Stock Company)**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
 (All amounts in Saudi Riyals unless otherwise stated)

|  | <u>Share capital</u> | <u>Statutory reserve</u> | <u>Retained earnings</u> | <u>Total</u>       |
|--|----------------------|--------------------------|--------------------------|--------------------|
| <b>January 1, 2013</b>                           | 420,000,000          | 34,048,015               | 114,542,184              | 568,590,199        |
| Net income for the year                          | -                    | -                        | 111,502,515              | 111,502,515        |
| Transfer to statutory Reserve                    | -                    | 11,150,252               | (11,150,252)             | -                  |
| Dividends paid                                   | -                    | -                        | (94,500,000)             | (94,500,000)       |
| Transfer from retained earnings to share capital | <u>105,000,000</u>   | <u>(33,000,000)</u>      | <u>(72,000,000)</u>      | <u>-</u>           |
| <b>December 31, 2013</b>                         | <u>525,000,000</u>   | <u>12,198,267</u>        | <u>48,394,447</u>        | <u>585,592,714</u> |
| <b>January 1, 2012</b>                           | 300,000,000          | 24,620,970               | 149,698,778              | 474,319,748        |
| Net income for the year                          | -                    | -                        | 94,270,451               | 94,270,451         |
| Transfer to statutory reserve                    | -                    | 9,427,045                | (9,427,045)              | -                  |
| Transfer from retained earnings to share capital | <u>120,000,000</u>   | <u>-</u>                 | <u>(120,000,000)</u>     | <u>-</u>           |
| <b>December 31, 2012</b>                         | <u>420,000,000</u>   | <u>34,048,015</u>        | <u>114,542,184</u>       | <u>568,590,199</u> |

The notes on pages 6 to 20 form an integral part of these financial statements.



**AL HAMMADI DEVELOPMENT AND INVESTMENT COMPANY**

**(A Saudi Closed Joint Stock Company)**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012**

(All amounts in Saudi Riyals unless otherwise stated)

**1. General information**

Al Hammadi Development and Investment Company (the "Company") was established to trade in wholesale and retail of medical equipment and medicines, in addition to establishing, repairing, managing and operating hospitals and medical centers.

The Company is a Saudi Closed Joint Stock Company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010196714 issued in Riyadh on 23 Safar 1425H (corresponding to April 13, 2004) with a branch in Riyadh under Commercial Registration No. 1010263026 issued in Riyadh on 27 Safar 1430H (corresponding to February 22, 2009). The registered address of the Company is P.O. Box 55004, Riyadh 11534, Kingdom of Saudi Arabia.

These financial statements also include the results of operations of the Branch mentioned above.

The board of directors approved the accompanying financial statements for issuance on February 24, 2014.

**2. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below; these policies have been consistently applied to all years presented, unless otherwise stated.

**2.1 Basis of preparation**

The accompanying financial statements have been prepared under the historical cost convention on the accrual basis of accounting, and in compliance with the Accounting Standards promulgated by the Saudi Organization for Certified Public Accountants ("SOCPA").

**2.2 Critical accounting estimates and judgments**

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, seldom equal the related actual results.

**2.3 Segment reporting**

**(a) Business segment**

A business segment is group of assets, operations or entities:

- (i) engaged in revenue producing activities;
- (ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) Financial information is separately available.



**AL HAMMADI DEVELOPMENT AND INVESTMENT COMPANY**

**(A Saudi Closed Joint Stock Company)**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012**

(All amounts in Saudi Riyals unless otherwise stated)

(b) Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

**2.4 Foreign currency translation**

(a) Reporting currency

The presentation of financial statements is in Saudi Riyals, which is the reporting currency of the Company

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, which were not significant for the years ended December 31, 2013 and 2012, respectively, are recognized in the statement of income.

**2.5 Cash and cash equivalents**

Cash and cash equivalents include cash in hand and at banks and other short-term liquid investments, if any with original maturities of three months or less from purchase date.

**2.6 Accounts receivable, net**

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the statement of income and reported under "General and administrative expenses". When an account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "General and administrative expenses" in the statement of income.

**2.7 Inventories**

Inventories are carried at the lower of cost or net realizable value. Cost is determined using weighted average method.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

**AL HAMMADI DEVELOPMENT AND INVESTMENT COMPANY**  
**(A Saudi Closed Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012**  
(All amounts in Saudi Riyals unless otherwise stated)

**2.8 Property and equipment**

Property and equipment are carried at cost, less accumulated depreciation except projects in progress. Lands are not depreciated. Depreciation is charged to the statement of income, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

|  | <u>Years</u> |
|--|--------------|
| Buildings                                | 33           |
| Medical equipment and tools              | 10           |
| Furniture, fixtures and office equipment | 6-10         |
| Vehicles                                 | 4            |

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of income.

Maintenance and normal repairs, which do not materially extend the estimated useful life of an asset, are charged to the statement of income as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

**2.9 Capital work-in-progress**

Capital work-in-progress is stated at cost and not depreciated. Depreciation on capital work-in-progress commences when the assets are ready for their intended use.

**2.10 Impairment of non-current assets**

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than intangible assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss recognized as income immediately in the statement of income. Impairment losses recognized on intangible assets are not reversible.

**2.11 Borrowings**

Borrowings are recognized at the proceeds received, net of transaction costs incurred, if any. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets capitalized as part of those assets. Other borrowing costs are charged to the statement of income.

**2.12 Accounts payable and accruals**

Liabilities are recognized for amount to be paid for goods and services received, whether or not billed to the Company.

**AL HAMMADI DEVELOPMENT AND INVESTMENT COMPANY**

**(A Saudi Closed Joint Stock Company)**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012**

(All amounts in Saudi Riyals unless otherwise stated)

**2.13 Provisions**

Provisions are recognized when; the Company has a present legal or constructive obligation because of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

**2.14 Zakat**

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"). Zakat is estimated, accrued and charged to the statement of income. Any differences in the estimate is recorded when the final assessment is approved at which time the provision is adjusted.

**2.15 Employees' termination benefits**

Employees' termination benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the statement of income. The liability is calculated, as the current value of the vested benefits to which the employee is entitled, should the employee leaves at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

**2.16 Revenues**

Revenues are recognized when the services are rendered to the patients, and recorded net of discounts. Discounts are granted principally to insurance companies, major corporates, cash paying customers, and represent the difference between the established standard rates for various services less negotiated amount for payment.

**2.17 General and administrative expenses**

General and administrative expenses include direct and indirect costs not specifically part of cost of revenues as required under generally accepted accounting principles. Allocations between general and administrative expenses and cost of revenues, when required, is made on consistent basis.

**2.18 Dividends**

Dividends are recorded in the financial statements in the period in which they are approved by shareholders of the Company.

**2.19 Operating leases**

Rental expenses under operating leases are charged to the statement of income over the period of the respective lease. Rental income is recognized on the accrual basis in accordance with the terms of the contracts.

**AL HAMMADI DEVELOPMENT AND INVESTMENT COMPANY**

**(A Saudi Closed Joint Stock Company)**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012**

(All amounts in Saudi Riyals unless otherwise stated)

**3. Financial instruments and risk management**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by senior management. The most important types of risk are summarized below.

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts receivable, due from related parties, accounts payable, due to related parties, accrued and other current liabilities and short-term loan. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial assets and liabilities are offset and net amounts reported in the financial statements, when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

**3.1 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's transactions are principally in Saudi Riyals. Management believes that Company's exposure to currency risk is not significant.

**3.2 Fair value and cash flow interest rate risks**

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial positions and cash flows. The Company monitors the commission rate fluctuations on continuous basis and acts accordingly. The Company's commission rates principally relates to its borrowings and are subject to change on periodic basis.

**3.3 Price risk**

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company is currently not exposed to price risk as it has no investments in marketable securities.

**3.4 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. Cash is placed with banks with sound credit ratings. Accounts receivable are carried net of provision for doubtful debts. (See also Note 5).

**3.5 Liquidity risk**

Liquidity risk is the risk that an enterprise 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. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

**AL HAMMADI DEVELOPMENT AND INVESTMENT COMPANY****(A Saudi Closed Joint Stock Company)****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012**

(All amounts in Saudi Riyals unless otherwise stated)

**3.6 Fair value**

Fair value is the amount for which an asset can be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Company's financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

**4. Cash and cash equivalents**

|               | <b>2013</b>       | <b>2012</b>       |
|---------------|-------------------|-------------------|
| Cash in hand  | 2,436,726         | 3,010,064         |
| Cash at banks | <u>39,761,858</u> | <u>60,427,533</u> |
|               | <u>42,198,584</u> | <u>63,437,597</u> |

**5. Accounts receivable - net**

|                                    | <b>2013</b>         | <b>2012</b>         |
|------------------------------------|---------------------|---------------------|
| Trade                              | 147,596,560         | 112,130,425         |
| Receivables not yet billed         | <u>8,528,231</u>    | <u>9,983,135</u>    |
|                                    | 156,124,791         | 122,113,560         |
| Less: Provision for doubtful debts | <u>(19,663,521)</u> | <u>(15,157,748)</u> |
|                                    | <u>136,461,270</u>  | <u>106,955,812</u>  |

Movement in provision for doubtful debts is as follows:

|                        | <b>2013</b>         | <b>2012</b>         |
|------------------------|---------------------|---------------------|
| Balance at January 1   | 15,157,748          | 3,690,588           |
| Additions              | 22,963,729          | 25,861,356          |
| Write-offs             | <u>(18,457,956)</u> | <u>(14,394,196)</u> |
| Balance at December 31 | <u>19,663,521</u>   | <u>15,157,748</u>   |

**AL HAMMADI DEVELOPMENT AND INVESTMENT COMPANY**  
**(A Saudi Closed Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012**  
 (All amounts in Saudi Riyals unless otherwise stated)

**6. Inventories**

|  | <b>2013</b>       | <b>2012</b>       |
|--|-------------------|-------------------|
| Medicines                                  | 9,764,894         | 9,356,769         |
| Medical tools and supplies                 | 4,536,692         | 4,313,944         |
| Non-medical tools and supplies             | 1,130,751         | 1,587,996         |
| Spare parts and supplies not held for sale | <u>127,489</u>    | <u>117,571</u>    |
|  | <u>15,559,826</u> | <u>15,376,280</u> |

**7. Prepayments and other current Assets**

|                                | <b>2013</b>       | <b>2012</b>      |
|--------------------------------|-------------------|------------------|
| Prepayments to suppliers       | 4,616,313         | 1,704,864        |
| Consultations and IPO expenses | 4,613,010         | 1,300,538        |
| Rent and medical insurance     | 3,528,487         | 2,741,897        |
| Advances to employees          | 1,079,980         | 982,382          |
| Margin Deposit                 | 36,000            | 36,000           |
| Other                          | <u>256,450</u>    | <u>847,075</u>   |
|                                | <u>14,130,240</u> | <u>7,612,756</u> |

**8. Property and equipment - net**

|   | <b>January 1,<br/>2013</b> | <b>Additions</b>  | <b>Disposals</b> | <b>December 31,<br/>2013</b> |
|---|----------------------------|-------------------|------------------|------------------------------|
| <b>Cost:</b>                                |                            |                   |                  |                              |
| Lands                                       | 262,396,467                |                   | -                | 262,396,467                  |
| Buildings                                   | 196,983,088                | -                 | -                | 196,983,088                  |
| Medical equipment<br>and tools              | 112,548,237                | 2,710,187         | -                | 115,258,424                  |
| Furniture, fixtures and<br>office equipment | 43,102,770                 | 2,137,457         | -                | 45,240,227                   |
| Vehicles                                    | <u>2,932,118</u>           | <u>989,000</u>    | <u>(209,250)</u> | <u>3,711,868</u>             |
| Total                                       | <u>617,962,680</u>         | <u>5,836,644</u>  | <u>(209,250)</u> | <u>623,590,074</u>           |
| <b>Accumulated depreciation:</b>            |                            |                   |                  |                              |
| Buildings                                   | 123,736,583                | 5,909,493         | -                | 129,646,076                  |
| Medical equipment<br>and tools              | 88,968,100                 | 4,624,958         | -                | 93,593,058                   |
| Furniture, fixtures and<br>office equipment | 33,232,475                 | 2,477,235         | -                | 35,709,710                   |
| Vehicles                                    | <u>1,679,535</u>           | <u>602,473</u>    | <u>(209,246)</u> | <u>2,072,762</u>             |
| Total                                       | <u>247,616,693</u>         | <u>13,614,159</u> | <u>(209,246)</u> | <u>261,021,606</u>           |
|   | <u>370,345,987</u>         |                   |                  | <u>362,568,608</u>           |

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|  | <u>January 1,<br/>2012</u> | <u>Additions</u>  | <u>Disposals</u> | <u>December 31,<br/>2012</u> |
|--|----------------------------|-------------------|------------------|------------------------------|
| <b>Cost:</b>                             |                            |                   |                  |                              |
| Lands                                    | 232,278,478                | 30,117,989        | -                | 262,396,467                  |
| Buildings                                | 196,983,088                | -                 | -                | 196,983,088                  |
| Medical equipment and tools              | 106,323,888                | 6,224,349         | -                | 112,548,237                  |
| Furniture, fixtures and office equipment | 41,772,865                 | 1,329,905         | -                | 43,102,770                   |
| Vehicles                                 | 2,252,777                  | 679,341           | -                | 2,932,118                    |
| Total                                    | <u>579,611,096</u>         | <u>38,351,584</u> | -                | <u>617,962,680</u>           |
| <b>Accumulated depreciation:</b>         |                            |                   |                  |                              |
| Buildings                                | 117,820,344                | 5,916,239         | -                | 123,736,583                  |
| Medical equipment and tools              | 84,196,713                 | 4,771,387         | -                | 88,968,100                   |
| Furniture, fixtures and office equipment | 30,545,516                 | 2,686,959         | -                | 33,232,475                   |
| Vehicles                                 | 1,456,375                  | 223,160           | -                | 1,679,535                    |
| Total                                    | <u>234,018,948</u>         | <u>13,597,745</u> | -                | <u>247,616,693</u>           |
|  | <u>345,592,148</u>         |                   |                  | <u>370,345,987</u>           |

The above lands include a land in total amount of Saudi Riyals 86,987,035 serving as a loan collateral for the Ministry of finance as a loan guarantee, in addition to a land in the amount of Saudi Riyals 67,000,000 pledged to a local bank loan as a guarantee. (Please refer to Note 10).

**9. Capital work-in-progress**

The capital work-in-progress comprise of the construction of Al-Suwaidi branch, Al-Nozhah branch and the staff accommodation. The movement of the account is as follows:

|                           | <b>2013</b>        | <b>2012</b>        |
|---------------------------|--------------------|--------------------|
| Opening balance           | 279,528,754        | 52,356,720         |
| Additions during the year | 385,542,727        | 227,172,034        |
| Transfers to fixed assets | -                  | -                  |
|                           | <u>665,071,481</u> | <u>279,528,754</u> |

These constructions are financed through loans from a local commercial bank (Please refer to Note 10 and Note 24). The total cost of loans which is capitalized on these constructions is Saudi Riyals 16,287,896 as of December 31, 2013. (2012: Saudi Riyals 2,421,517).

**10. Long-term loans**

|                                   | <b>2013</b>        | <b>2012</b>        |
|-----------------------------------|--------------------|--------------------|
| Loan from the Ministry of Finance | 75,907,200         | -                  |
| Loans from commercial banks       | <u>502,122,050</u> | <u>212,637,615</u> |
|                                   | <u>578,029,250</u> | <u>212,637,615</u> |

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#### **10.1 Loan from the Ministry of Finance**

The loan agreement with the Saudi Ministry of Finance is to obtain a loan of Saudi Riyals 149.1 million in purpose of establishing the hospital building (Al Swaidi branch) and purchasing of medical equipment and furniture. The Company has used part of the loan in the amount of Saudi Riyals 75.9 million as of December 31, 2013. The annual installment is determined in light of how much is actually spent from the value of the loan at the end of the implementation period of this specific contract after dividing the total disbursements to twenty annual installments. The maturity of the first installment will be after five year from the date of the agreement which is September 18, 2013. This loan is secured by a mortgage of the property, plant and equipment for Al Swaidi branch. This loan does not have any financing commissions.

#### **10.2 Loans from commercial banks**

The Company has held many different facilities and loans agreements with local commercial banks. Those loans carry finance commissions based on the rates prevailing in the market. These agreements include bank facilities of Saudi Riyals 1.1 billion as at December 31, 2013 in form of long term loans. These bank facilities include Saudi Riyals 150 million as a long-term loan to be repaid after a three years period on quarterly basis with a grace period of two years. The maturity of the first will be at March 31, 2015. In addition, These bank facilities include Saudi Riyals 147.8 million in the form of LCs limit to be repaid after three years period on quarterly basis with a grace period of three years. The maturity of the first installment will be on June 30, 2015. The bank facilities also include Saudi Riyals 150 million as a long-term loan to be repaid after a five years period on half year basis. The maturity of the first will be at October 20, 2015. Also, these facilities include a long term loan of Saudi Riyals 300 million to be repaid after three years period on half year basis with a grace period of two years. The maturity of the first payment will be at June 5, 2016. The purpose of these loans are principally to finance the purchase of lands for the Company, constructions of branches and accommodation for staff and purchase of medical equipment. The Company used Saudi Riyals 504 million of the total amount of these facilities at the date of these financial statements.

The facilities agreements referred to above also include facilities for the issuance of letters of guarantee and letters of credit in addition to overdraft account amounting to Saudi Riyals 51 million. The company has used approximately Saudi Riyals 1.9 million of the total value of these facilities as at the date of the financial statements.

The long-term loans carry a special commission equal to the prevailing rates between the local commercial banks, plus a certain profit margin to be paid on quarterly basis, with a grace period of two years and are amortized over the term of the loan based on the effective interest rate method. Based on the terms of the agreement, the Company has to comply with some financial and non-financial commitments that require certain financial ratios and conditions to be maintained. The carrying value of these loans are in Saudi Riyals.



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**10.3 Long term loans maturities**

The maturities of long-term loan are as follow:

|            | <b>2013</b>        | <b>2012</b>        |
|------------|--------------------|--------------------|
| 2014       | -                  | -                  |
| 2015       | 110,310,000        | 85,310,000         |
| 2016       | 173,096,242        | 77,327,615         |
| 2017       | 170,619,565        | 50,000,000         |
| 2018       | 48,096,243         | -                  |
| After that | <u>75,907,200</u>  | <u>-</u>           |
|            | <u>578,029,250</u> | <u>212,637,615</u> |

**11. Accrued and other current liabilities**

|   | <b>2013</b>       | <b>2012</b>       |
|---|-------------------|-------------------|
| Employees' benefits                       | 6,110,236         | 5,365,955         |
| Patients' deposits                        | 5,620,870         | 5,383,804         |
| Medical education fund                    | 3,518,654         | 2,714,967         |
| Accrued interest                          | 1,823,115         | -                 |
| Amounts due for external medical services | 1,417,457         | 922,418           |
| Social insurance                          | 355,682           | 281,378           |
| Other                                     | <u>707,123</u>    | <u>571,870</u>    |
|   | <u>19,553,137</u> | <u>15,240,392</u> |

**12. Employees' termination benefits**

|                        | <b>2013</b>       | <b>2012</b>      |
|------------------------|-------------------|------------------|
| Balance at January 1   | 9,660,181         | 5,551,554        |
| Provision              | 5,444,577         | 4,429,620        |
| Payments               | <u>(299,505)</u>  | <u>(320,993)</u> |
| Balance at December 31 | <u>14,805,253</u> | <u>9,660,181</u> |

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**13. Share capital**

The Company's share capital of Saudi Riyals 525 million at December 31, 2013 consist of 52,500,000 shares (2012: 42,000,000 shares) fully paid shares of Saudi Riyals 10 each and owned by Saudi shareholders as follows:

**2013**

| <b>Shareholders</b>                   | <b>Number of shares</b> | <b>Share capital</b> | <b>%</b>       |
|---------------------------------------|-------------------------|----------------------|----------------|
| Jadwa Medical Opportunity Company     | 15,750,000              | 157,500,000          | 30.000         |
| Mr. Saleh Bin Mohammed Al Hammadi     | 7,500,000               | 75,000,000           | 14.290         |
| Dr. Abdulaziz Bin Mohammed Al Hammadi | 7,500,000               | 75,000,000           | 14.290         |
| Mr. Faisal Abdulaziz Al Hammadi       | 3,675,000               | 36,750,000           | 7.000          |
| Mr. Mohammed Abdulaziz Al Hammadi     | 3,675,000               | 36,750,000           | 7.000          |
| Mr. Abdulaziz Saleh Al Hammadi        | 3,675,000               | 36,750,000           | 7.000          |
| Mr. Mohammed Saleh Al Hammadi         | 3,675,000               | 36,750,000           | 7.000          |
| Ms. Al Joharah Ibrahim Bin Aoun       | 2,367,375               | 23,673,750           | 4.500          |
| Ms. Hend Bint Fahd Al-Dekheel         | 1,987,625               | 19,876,250           | 3.790          |
| Mr. Turki Ibrahim Mansour Al Rajhi    | 1,748,750               | 17,487,500           | 3.330          |
| Mr. Ibrahim Bin Mansour Al Rajhi      | 945,000                 | 9,450,000            | 1.800          |
| Mr. Sami Abdullah Al Saeed            | 1,250                   | 12,500               | 0.002          |
|                                       | <u>52,500,000</u>       | <u>525,000,000</u>   | <u>100.000</u> |

**2012**

|                                       |                   |                    |                |
|---------------------------------------|-------------------|--------------------|----------------|
| Jadwa Medical Opportunity Company     | 12,600,000        | 126,000,000        | 30.000         |
| Mr. Saleh Bin Mohammed Al Hammadi     | 9,573,900         | 95,739,000         | 22.800         |
| Dr. Abdulaziz Bin Mohammed Al Hammadi | 4,650,100         | 46,501,000         | 11.070         |
| Mr. Faisal Abdulaziz Al Hammadi       | 2,940,000         | 29,400,000         | 7.000          |
| Mr. Mohammed Abdulaziz Al Hammadi     | 2,940,000         | 29,400,000         | 7.000          |
| Ms. Hend Bint Fahd Al-Dekheel         | 2,940,000         | 29,400,000         | 7.000          |
| Mr. Abdulaziz Saleh Al Hammadi        | 2,100,000         | 21,000,000         | 5.000          |
| Mr. Mohammed Saleh Al Hammadi         | 2,100,000         | 21,000,000         | 5.000          |
| Mr. Turki Ibrahim Mansour Al Rajhi    | 1,400,000         | 14,000,000         | 3.330          |
| Mr. Ibrahim Bin Mansour Al Rajhi      | 756,000           | 7,560,000          | 1.800          |
|                                       | <u>42,000,000</u> | <u>420,000,000</u> | <u>100.000</u> |

The Company increased its share capital on June 17, 2013 from Saudi Riyals 420 million to Saudi Riyals 525 million and the number of shares from 24 million shares to 52.5 million shares by 25% of share capital through distribution of two shares for every 5 shares in form of bonus shares. The increase in the share capital was made through a transfer from the retained earnings as at December 31, 2012 by amount of Saudi Riyals 72 million and from the statutory reserve as at December 31, 2012 by amount of Saudi Riyals 33 million based on the approval of the extraordinary general assembly at their meeting on 8 Shaaban 1434H corresponding to June 17, 2013. The related legal formalities were completed during December 31, 2013.

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**14. Statutory reserve**

In accordance with its by-laws and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to allocate 10% of its net income each year to a statutory reserve until it reaches 50% of the share capital. Such reserve is not currently available for distribution to the shareholders.

**15. Revenues - net**

|  | <b>2013</b>         | <b>2012</b>         |
|--|---------------------|---------------------|
| Doctors' fees and other medical treatments | 195,544,114         | 173,200,127         |
| Pharmacy                                   | 117,110,655         | 103,782,206         |
| Laboratory                                 | 90,041,391          | 79,107,585          |
| X-Rays                                     | 52,255,879          | 47,290,017          |
| Room charges                               | 46,575,878          | 44,244,275          |
| Physical therapy                           | <u>3,171,975</u>    | <u>4,668,276</u>    |
| Gross revenues                             | 504,699,892         | 452,292,486         |
| Less: Discounts                            | <u>(70,624,193)</u> | <u>(73,607,987)</u> |
|  | <u>434,075,699</u>  | <u>378,684,499</u>  |

**16. Cost of revenues**

|                               | <b>2013</b>        | <b>2012</b>        |
|-------------------------------|--------------------|--------------------|
| Medical costs                 | 115,691,699        | 102,371,929        |
| Salaries and related benefits | 115,221,001        | 96,699,348         |
| Depreciation                  | 10,428,676         | 10,434,744         |
| Repairs and maintenance       | 4,127,660          | 2,486,169          |
| Utilities                     | <u>3,444,477</u>   | <u>3,582,842</u>   |
|                               | <u>248,913,513</u> | <u>215,575,032</u> |

**17. General and administrative expenses**

|                                    | <b>2013</b>       | <b>2012</b>       |
|------------------------------------|-------------------|-------------------|
| Provision for doubtful debts       | 22,963,729        | 25,861,355        |
| Salaries and related benefits      | 27,127,740        | 19,929,179        |
| Non-medical Materials consumed     | 5,293,460         | 4,888,894         |
| Depreciation                       | 3,185,483         | 3,163,001         |
| Rentals                            | 3,399,263         | 3,695,459         |
| Repairs and maintenance            | 1,553,488         | 1,760,303         |
| Utilities                          | 861,119           | 895,710           |
| Insurance                          | 856,320           | 834,217           |
| Donations and contributions        | 226,500           | 236,935           |
| Advertisement and public relations | 184,965           | 785,925           |
| Stationery                         | 87,144            | 93,682            |
| Other                              | <u>7,327,927</u>  | <u>8,625,679</u>  |
|                                    | <u>73,067,139</u> | <u>70,770,339</u> |

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**18. Related party matters**

**18.1 Related party transactions**

Significant transactions with related parties in the ordinary course of business included in the financial statements are summarized below:

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Completed works for capital work in progress from a company affiliated to a shareholder | 279,763,001 | 215,620,719 |
| Purchases from a company owned by relatives of the shareholders                         | 5,891,803   | 4,395,503   |
| Salaries and other benefits paid to relatives of the shareholders                       | 4,211,662   | 2,665,219   |
| Rental expense paid to related parties  | 300,000     | 250,000     |

Also, see Note 24 regarding dividends.

**18.2 Related party balances**

Significant year-end balances from transactions with related parties are as follow:

(i) Due from related parties

|   | <b>2013</b>    | <b>2012</b>   |
|---|----------------|---------------|
| Mr Ibrahim Mansour Al Rajhi (Shareholder)                   | 166,933        | 69,571        |
| Aziz Limited Company for Contracting and Medical Services   | -              | 995           |
| Ms. Haya Al Hamadi  | 150,000        | -             |
| Mohammed Al Hamadi Establishment for Information Technology | <u>33,500</u>  | <u>-</u>      |
|   | <u>350,433</u> | <u>70,566</u> |

(ii) Due to related parties

|   | <b>2013</b>    | <b>2012</b>    |
|---|----------------|----------------|
| Aktef Trading Company                                       | 706,487        | 995,034        |
| Mohammed Al Hamadi Establishment for Information Technology | <u>-</u>       | <u>1,605</u>   |
|   | <u>706,487</u> | <u>996,639</u> |

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**19. Zakat matters****19.1 Components of zakat base**

The significant components of the Company's zakat base, which are subject to certain adjustments under zakat and income tax regulations, are as follows:

|  | <b>2013</b>        | <b>2012</b>        |
|--|--------------------|--------------------|
| <b>Calculation of zakat base:</b>          |                    |                    |
| Shareholders' equity at beginning of year  | 568,590,199        | 474,319,748        |
| Adjusted net income for the year           | 129,565,022        | 115,011,457        |
| Provisions at beginning of year            | 24,817,929         | 10,205,290         |
| Long-term loans                            | 578,029,250        | 212,637,615        |
| Less:                                      |                    |                    |
| Property and equipment - net               | (362,568,468)      | (370,345,987)      |
| Capital work-in-progress                   | (665,071,481)      | (279,528,754)      |
| Spare parts and supplies not held for sale | (127,489)          | (117,571)          |
| Dividends paid                             | (94,500,000)       | -                  |
| Estimated zakat base for the Company       | <u>178,734,962</u> | <u>162,181,798</u> |

Zakat is payable at 2.5 percent of higher of the approximate zakat base and adjusted net income.

**19.2 Calculation of adjusted net income**

|   | <b>2013</b>        | <b>2012</b>        |
|---|--------------------|--------------------|
| Income before zakat   | 115,702,515        | 96,770,451         |
| Add:  |                    |                    |
| Salaries and other benefits paid to relatives of the shareholders | 4,211,662          | 2,665,219          |
| Change in provision for employees' termination benefits           | 5,145,072          | 4,108,627          |
| Change in provision for doubtful debts                            | <u>4,505,773</u>   | <u>11,467,160</u>  |
| Adjusted net income for the year                                  | <u>129,565,022</u> | <u>115,011,457</u> |

**19.3 Provision for zakat**

|                                     | <b>2013</b>        | <b>2012</b>        |
|-------------------------------------|--------------------|--------------------|
| Balance at January 1                | 3,463,148          | 4,200,000          |
| Provision for the year              | 4,200,000          | 3,463,148          |
| Reversals of prior years provisions | -                  | (963,148)          |
| Payments                            | <u>(4,054,545)</u> | <u>(3,236,852)</u> |
| Balance at December 31              | <u>3,608,603</u>   | <u>3,463,148</u>   |

**19.4 Status of final assessments**

The company has ended its Zakat status and received the final zakat assessments for the financial years up to the year ended December 31, 2007. The company also obtained the final assessment for the period ended September 30, 2008, the date when the legal entity of the company changed from a limited liability company to a closed joint stock company. Based on these assessments, there were not any additional amounts owed by the Company for the years and the period mentioned above.

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The company has filed its zakat returns with the DZIT for the period ended December 31, 2009 and the financial years ended December 31, 2010 until December 31, 2012, and has obtained the restricted certificates. The company did not receive any zakat assessments at those periods / years until December 31, 2013, and there are no estimates of any additional amounts expected to be claimed by the Department of Zakat. Accordingly, no provision in the accompanying financial statements.

**20. Operating leases**

The company has operating leases related to the accommodation of the staff. The rental expenses is Saudi Riyals 3.4 million for the year ended December 31, 2013 (2012: Saudi Riyals 3.7 million).

The future rent commitments related to these operating leases are summarized as follows:

|      | 2013             | 2012             |
|------|------------------|------------------|
| 2013 | -                | 2,144,973        |
| 2014 | 1,682,594        | 1,343,550        |
| 2015 | 2,332,737        | -                |
| 2016 | 215,993          | -                |
|      | <u>4,231,324</u> | <u>3,488,523</u> |

**21. Earnings per share**

Earnings per share for the year has been computed by dividing the operating income and net income for the year by weighted average of number of shares outstanding during the years 2012 and 2013, which was 52.5 million shares. Earnings per share from main operations and net income for the year ended December 31, 2012 has been recomputed retroactively on the basis of the new number of shares further to the increase in the company's capital worth 105 million Saudi riyals (Note: 13).

**22. Segment information**

The Company's operations are substantially comprised of health-care services. Accordingly, segment information is not applicable. Furthermore, all of the Company's operations are conducted in Saudi Arabia.

**23. Dividends**

During 2013, the Company did not distribute any dividends to the shareholders (2012: Nil).

During 2013, the Company distributed dividends of Saudi Riyals 94.5 million (2012: Nil). An amount of Saudi Riyals 42 million is related to 2012 net income and an amount of Saudi Riyals 52.5 million related to 2013 net income.

**24. Contingencies and commitments**

The Company had outstanding letters of credit and guarantee from a local bank amounting to Saudi Riyals 73,335,679 as at December 31, 2013 (2012: Saudi Riyals 89,225,260).

The Company had capital commitments amounting to Saudi Riyals 340,616,280 as at December 31, 2013 related to capital work in progress with related parties (2012: Saudi Riyals 620,379,281).