

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

**CONSOLIDATED FINANCIAL STATEMENTS AND
AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2012**

MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2012

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AUDITORS' REPORT

To the shareholders
Mouwasat Medical Services Company
Dammam, Saudi Arabia

Scope of Audit


We have audited the consolidated balance sheet of Mouwasat Medical Services Company ("the Parent Company"), a Saudi Joint Stock Company, and its subsidiaries (collectively "the Group") as of December 31, 2012, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended, and notes 1 to 22 which form an integral part of these consolidated financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These consolidated financial statements are the responsibility of the Parent Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

Unqualified Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2012, and the consolidated results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the nature of the Group, and comply with the relevant provisions of the Regulations for Companies and the articles of the Parent Company as these relate to the preparation and presentation of these consolidated financial statements.

Deloitte & Touche
Bakr Abulkhair & Co.



Nasser M. Al-Sagga
License No. 322
9 Rabi' II, 1434
February 19, 2013




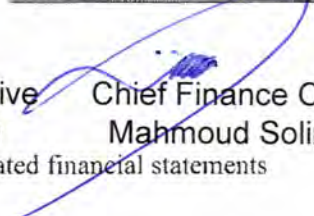
MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2012

| | Note | 2012 SR | 2011 SR |
|--|------|----------------------|--------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 3 | 157,672,275 | 192,673,319 |
| Short term investment | | 70,000,000 | - |
| Accounts receivable and prepayments | 4 | 221,741,557 | 183,493,276 |
| Inventories | 5 | 62,622,067 | 58,607,265 |
| Total current assets | | 512,035,899 | 434,773,860 |
| Non-current assets | | | |
| Investment in an associate | 6 | 7,662,825 | 7,289,216 |
| Property and equipment | 7 | 688,027,189 | 525,591,049 |
| Intangible assets | 8 | 17,450,046 | 17,166,089 |
| Total non-current assets | | 713,140,060 | 550,046,354 |
| TOTAL ASSETS | | 1,225,175,959 | 984,820,214 |
| LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS | | | |
| Current liabilities | | | |
| Short term loan | 11 | 50,000,000 | - |
| Current portion of long term loans | 11 | 46,273,146 | 27,386,462 |
| Accounts payable and accruals | 9 | 121,235,475 | 108,258,350 |
| Total current liabilities | | 217,508,621 | 135,644,812 |
| Non-current liabilities | | | |
| Long term loans | 11 | 162,839,563 | 111,112,605 |
| End-of-service indemnities | | 31,216,207 | 27,199,446 |
| Total non-current liabilities | | 194,055,770 | 138,312,051 |
| Shareholders' equity and non-controlling interests | | | |
| Share capital | 1 | 500,000,000 | 250,000,000 |
| Statutory reserve | | 79,432,184 | 62,272,728 |
| Retained earnings | | 109,294,014 | 281,258,913 |
| Proposed dividends | 12 | 75,000,000 | 75,000,000 |
| Total shareholders' equity | | 763,726,198 | 668,531,641 |
| Non-controlling interests | 13 | 49,885,370 | 42,331,710 |
| Total shareholders' equity and non-controlling interests | | 813,611,568 | 710,863,351 |
| TOTAL LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS | | 1,225,175,959 | 984,820,214 |


Managing Director
Mohd Sulaiman Al Saleem


Authorized Board Representative
Mohd Sulaiman Al Saleem


Chief Finance Officer
Mahmoud Soliman

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

MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2012

| | Note | 2012 SR | 2011 SR |
|---|------|----------------------|----------------------|
| Revenues | | | |
| Operating revenues | | 632,239,918 | 530,004,631 |
| Trading sales | | 164,274,241 | 148,436,937 |
| Total revenues | | 796,514,159 | 678,441,568 |
| Direct costs | | | |
| Cost of operations | | (309,595,302) | (248,887,548) |
| Cost of sales | | (114,210,630) | (105,556,867) |
| Total direct costs | | (423,805,932) | (354,444,415) |
| Gross profit | | 372,708,227 | 323,997,153 |
| Expenses | | | |
| Selling and distribution expenses | 15 | (98,924,160) | (74,734,513) |
| General and administrative expenses | 16 | (87,213,137) | (79,221,548) |
| Amortization of intangible assets | 8 | (529,215) | (781,020) |
| Total expenses | | (186,666,512) | (154,737,081) |
| Operating income | | 186,041,715 | 169,260,072 |
| Other income | 17 | 8,668,043 | 8,451,677 |
| Finance charges | 11 | (1,130,998) | (2,135,507) |
| Income before non-controlling interest and zakat | | 193,578,760 | 175,576,242 |
| Non-controlling interests | 13 | (13,433,660) | (11,517,354) |
| Net income before zakat | | 180,145,100 | 164,058,888 |
| Zakat | 10 | (8,550,543) | (16,004,117) |
| NET INCOME | | 171,594,557 | 148,054,771 |
| Earnings per share | | | |
| Earnings per share from net income | | 3.43 | 2.96 |
| Earnings per share from continuing main operations | | 3.26 | 2.79 |
| Earnings per share from other operations | | 0.17 | 0.17 |
| Weighted average number of shares outstanding | | 50,000,000 | 50,000,000 |



Managing Director
Mohd Sulaiman Al Saleem



Authorized Board Representative
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Chief Finance Officer
Mahmoud Soliman

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MOUWASAT MEDICAL SERVICES COMPANY

(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**YEAR ENDED DECEMBER 31, 2012**

| | Note | Share capital SR | Statutory reserve SR | Retained earnings SR | Proposed dividends SR | Total SR |
|-------------------------------|------|------------------------|----------------------------|----------------------------|-----------------------------|--------------|
| January 1, 2011 | | 250,000,000 | 47,467,251 | 224,409,619 | 50,000,000 | 571,876,870 |
| Net income for 2011 | | - | - | 148,054,771 | - | 148,054,771 |
| Transfer to statutory reserve | | - | 14,805,477 | (14,805,477) | - | - |
| Dividends paid | | - | - | - | (50,000,000) | (50,000,000) |
| Proposed dividends | 12 | - | - | (75,000,000) | 75,000,000 | - |
| Directors' remuneration | 18 | - | - | (1,400,000) | - | (1,400,000) |
| December 31, 2011 | | 250,000,000 | 62,272,728 | 281,258,913 | 75,000,000 | 668,531,641 |
| Increase in share capital | 1 | 250,000,000 | - | (250,000,000) | - | - |
| Net income for 2012 | | - | - | 171,594,557 | - | 171,594,557 |
| Transfer to statutory reserve | | - | 17,159,456 | (17,159,456) | - | - |
| Dividends paid | | - | - | - | (75,000,000) | (75,000,000) |
| Proposed dividends | 12 | - | - | (75,000,000) | 75,000,000 | - |
| Directors' remuneration | 18 | - | - | (1,400,000) | - | (1,400,000) |
| December 31, 2012 | | 500,000,000 | 79,432,184 | 109,294,014 | 75,000,000 | 763,726,198 |



Managing Director
Mohd Sulaiman Al Saleem



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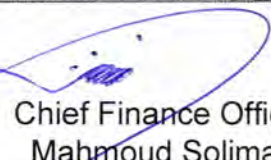
MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012

| | 2012 SR | 2011 SR |
|--|----------------------|---------------------|
| OPERATING ACTIVITIES | | |
| Income before non-controlling interests and zakat | 193,578,760 | 175,576,242 |
| Adjustments for: | | |
| Depreciation | 38,665,119 | 36,216,347 |
| Amortization of intangible assets | 529,215 | 781,020 |
| Share of income from an associate | (3,301,074) | (3,016,875) |
| End-of-service indemnities, net | 4,016,761 | 4,580,538 |
| Finance charges | 1,130,998 | 2,135,507 |
| Gain on disposal of property and equipment | (1,519,054) | (5,548,773) |
| Change in fair value of profit rate swap contract | - | 208,881 |
| Changes in operating assets and liabilities: | | |
| Accounts receivables and prepayments | (38,248,281) | 16,361,434 |
| Inventories | (4,014,802) | 542,585 |
| Accounts payables and accruals | 11,845,064 | 4,679,795 |
| Cash from operations | 202,682,706 | 232,516,701 |
| Finance charges paid | (1,130,998) | (2,135,507) |
| Zakat paid | (8,818,482) | (8,507,531) |
| Net cash from operating activities | 192,733,226 | 221,873,663 |
| INVESTING ACTIVITIES | | |
| Short term investment | (70,000,000) | - |
| Purchase of property and equipment | (202,591,705) | (94,223,309) |
| Additions to intangible assets | (813,172) | (425,293) |
| Proceeds from disposal of property and equipment | 3,009,500 | 8,389,731 |
| Dividend received from an associate | 2,927,465 | 3,036,109 |
| Net cash used in investing activities | (267,467,912) | (83,222,762) |
| FINANCING ACTIVITIES | | |
| Proceeds from short term loan | 50,000,000 | - |
| Proceeds from long term loans | 98,000,000 | - |
| Repayment of long term loans | (27,386,358) | (28,227,508) |
| Dividends paid | (75,000,000) | (50,000,000) |
| Change in non-controlling interests | (5,880,000) | (4,900,000) |
| Net cash from (used in) financing activities | 39,733,642 | (83,127,508) |
| Net change in cash and cash equivalents | (35,001,044) | 55,523,393 |
| Cash and cash equivalents, January 1 | 192,673,319 | 137,149,926 |
| CASH AND CASH EQUIVALENTS, DECEMBER 31 (note 3) | 157,672,275 | 192,673,319 |


Managing Director
Mohd Sulaiman Al Saleem


Authorized Board Representative
Mohd Sulaiman Al Saleem


Chief Finance Officer
Mahmoud Soliman

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

MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

1. ORGANIZATION AND ACTIVITIES

Mouwasat Medical Services Company ("the Parent Company") is registered in Saudi Arabia under commercial registration number 2050032029 dated 12 Ramadan 1417H corresponding to 22 January 1997. The Parent Company was converted into a closed Saudi Joint Stock Company in accordance with Ministerial Resolution No 1880 dated 4 Dhu al Hijja 1426 (corresponding to January 4, 2006). The share capital of the Company was SR 250 million divided into 25 million shares of SR 10 each.

The Board of Directors proposed in their meeting held on January 16, 2012 to increase the share capital of the Parent Company from SR 250 million to SR 500 million by capitalizing part of the retained earnings by distribution of one bonus share for every existing share held at the closing of trading on the day of extra ordinary general assembly meeting. In April 2012, the dividend and bonus shares had been approved by the shareholders at the Extra Ordinary General Assembly Meeting.

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

The consolidated financial statements include the financial statements of the Parent Company and its following subsidiaries (collectively "the Group") registered in the Kingdom of Saudi Arabia and their financing and operating policies are controlled by the Parent Company:

| <u>Name of entity</u> | <u>Percentage of ownership</u> |
|--|--------------------------------|
| Eastern Medical Services Company Limited | 51 |
| Specialized Medical Clinic Company Limited | 95 |

Eastern Medical Services Co. Ltd. is engaged in construction and operation of hospitals, dispensaries and special clinics. Specialized Medical Clinic Co. Ltd. is engaged in construction, management and operation of clinics (plastic surgery). Both subsidiaries operate in Saudi Arabia.

The Company's principal place of business is in Dammam, Saudi Arabia.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization of Certified Public Accountants ("SOCPA"). The principal accounting policies are set out below:

Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company prepared for the year ended December 31, 2012. 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. All significant intercompany transactions and balances between the Company and its subsidiaries have been eliminated in preparing the consolidated financial statements.

Accounting convention

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

MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2012

Use of estimate

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

Cash and cash equivalents

Cash and cash equivalents consists of bank balances, cash on hand, and murabaha deposits that are readily convertible into known amounts of cash and have a maturity of three months or less when purchased.

Short term investment

Investments in deposits with original maturities of more than three months, but less than twelve months are classified as short term investment.

Accounts receivable

Accounts receivable include billings made on credit which are outstanding at the consolidated balance sheet date, net of allowance for doubtful debts.

Inventories

Inventories are stated at the lower of cost and market value after making due allowance for any obsolete or slow moving items. Cost is determined on a weighted average basis.

Investment in an associate

An associate is an enterprise in which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee. Investment in an associate is accounted for using the equity method in the consolidated financial statements based on the latest available financial information. When fair values are not readily determinable, carrying amounts are considered to approximate fair values.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. The cost of property and equipment other than freehold land and construction in progress is depreciated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the principal classes of assets are as follows:

| | <u>Years</u> |
|------------------------|--------------|
| Buildings | 33 |
| Tools and equipment | 4 - 12.5 |
| Furniture and fixtures | 3 - 10 |
| Motor vehicles | 4 |

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

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

MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2012

Borrowing costs

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

Intangible assets

These represent goodwill on acquisition of subsidiary, license and pre-operating costs of certain hospitals and dispensaries. Goodwill is not amortized but reviewed for any impairment in value on an annual basis. Pre-operating costs are amortized over a maximum period of seven years and the costs of other intangible assets are amortized over the estimated period of benefit.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods and services when risks and rewards attributable to goods are transferred to the Group or services are received, whether or not billed to the Group.

Zakat

The Company and its subsidiaries are subject to the Regulations of the Department of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat is provided on an accruals basis and charged to the consolidated statement of income. Zakat is computed on the zakat base. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

End-of-service indemnities

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

Statutory reserve

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

Dividends

Dividends are recognized as a liability at the time of their approval by the Annual General Meeting. Interim dividends are recorded as and when approved by the Board of Directors.

Foreign currency translation

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

Revenue recognition

Revenue is recognised when goods are delivered or services are rendered to customers.

Expenses

Selling and distribution expenses are those that specifically relate to marketing personnel, advertisements, promotion as well as bad debts expense. All other expenses, other than cost of operations, cost of sales, amortization of intangible assets and finance charges, are classified as general and administrative expenses. Allocation of joint costs between cost of operations, cost of sales, selling and distribution expenses and general and administrative expenses are made based on the factors determined by the management and applied consistently.

MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2012

Derivative financial instruments

The Group uses derivative financial instruments such as profit rate swaps to hedge its risks associated with commission rate fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are re-measured at fair value at subsequent reporting dates. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to consolidated statement of income.

Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

Earnings per share

Earnings per share are computed by dividing the net income for the year by the weighted average number of shares outstanding during the year ended December 31, 2012 and 2011 totalling to 50 million shares (note 1).

Earnings per share from the continuing main operations are computed by dividing the operating income less other income, zakat, finance charges and non-controlling interests for the year by the weighted average number of shares outstanding.

Earnings per share from other operations are computed by dividing the other income for the year by the weighted average number of shares outstanding.

3. CASH AND CASH EQUIVALENTS

| | 2012 SR | 2011 SR |
|-------------------|--------------------|--------------------|
| Cash in hand | 755,230 | 621,211 |
| Bank balances | 76,917,045 | 62,052,108 |
| Murabaha deposits | 80,000,000 | 130,000,000 |
| | <u>157,672,275</u> | <u>192,673,319</u> |

4. ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | 2012 SR | 2011 SR |
|--|--------------------|--------------------|
| Trade receivable | 174,868,393 | 134,377,384 |
| Retention receivable | 18,472,319 | 17,778,869 |
| Amounts due from related parties (note 18) | 7,653,529 | 12,451,631 |
| Advances to suppliers | 4,131,271 | 4,167,494 |
| Prepaid expenses | 10,364,888 | 8,928,416 |
| Accrued income | 131,665 | 352,189 |
| Staff loans and advances | 777,004 | 798,445 |
| Other receivables | 5,342,488 | 4,638,848 |
| | <u>221,741,557</u> | <u>183,493,276</u> |

MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2012

5. INVENTORIES

| | 2012 | 2011 |
|---------------------------------------|-------------------|------------|
| | SR | SR |
| Surgical instruments and consumables | 27,403,331 | 28,345,591 |
| Pharmaceuticals, cosmetics and others | 33,138,029 | 29,161,376 |
| Spare parts | 2,080,707 | 1,100,298 |
| | 62,622,067 | 58,607,265 |

6. INVESTMENT IN AN ASSOCIATE

The Group has 50% ownership interest in Advance Medical Project Company (AMPC), a limited liability company registered in the Kingdom of Saudi Arabia. The principal activity of AMPC is to operate Ophthalmology and ENT clinics. Since the fair value is not readily determinable, the carrying value of this investment is considered to be its fair value.

Details of the change in investment are given below:

| | 2012 | 2011 |
|---|--------------------|-------------|
| | SR | SR |
| January 1 | 7,289,216 | 7,308,450 |
| Share of income from an associate (note 17) | 3,301,074 | 3,016,875 |
| Dividends | (2,927,465) | (3,036,109) |
| December 31 | 7,662,825 | 7,289,216 |

MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2012

7. PROPERTY AND EQUIPMENT

| | Freehold land SR | Buildings SR | Tools, equipment, furniture, fixtures and motor vehicles SR | Construction- in- progress SR | Total SR |
|-----------------------|------------------------|-----------------|--|-------------------------------------|---------------|
| Cost | | | | | |
| January 1, 2012 | 89,601,518 | 364,191,515 | 347,424,370 | 85,396,205 | 886,613,608 |
| Additions | 96,107,129 | 1,902,611 | 38,419,229 | 66,162,736 | 202,591,705 |
| Transfers | 499,849 | 4,207,316 | - | (4,707,165) | - |
| Disposals | (1,490,439) | - | (1,105,672) | - | (2,596,111) |
| December 31, 2012 | 184,718,057 | 370,301,442 | 384,737,927 | 146,851,776 | 1,086,609,202 |
| Depreciation | | | | | |
| January 1, 2012 | - | 133,110,086 | 227,912,473 | - | 361,022,559 |
| Charge for the year | - | 9,745,612 | 28,919,507 | - | 38,665,119 |
| Disposals | - | - | (1,105,665) | - | (1,105,665) |
| December 31, 2012 | - | 142,855,698 | 255,726,315 | - | 398,582,013 |
| Net book value | | | | | |
| December 31, 2012 | 184,718,057 | 227,445,744 | 129,011,612 | 146,851,776 | 688,027,189 |
| December 31, 2011 | 89,601,518 | 231,081,429 | 119,511,897 | 85,396,205 | 525,591,049 |

Construction-in-progress mainly represents the cost incurred for construction of a new hospital in Riyadh and extension of hospitals in Dammam and Jubail. Finance charges amounting to SR 6.7 million (2011: SR 4.87 million) have been capitalized during the year related to assets under construction at a capitalization rate of 9.97% (2011: 7.26%).

Certain of the property and equipment were pledged as security for a term loan obtained by the group from the Ministry of Finance (note 11).

MOUWASAT MEDICAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2012

8. INTANGIBLE ASSETS

| | Goodwill SR | License costs SR | Pre-operating costs SR | Total SR |
|-----------------------|-------------------|------------------------|------------------------------|-------------------|
| Cost | | | | |
| January 1, 2012 | 16,371,000 | 6,267,640 | 11,040,412 | 33,679,052 |
| Additions | - | 813,172 | - | 813,172 |
| Adjustment | - | - | (11,040,412) | (11,040,412) |
| December 31, 2012 | 16,371,000 | 7,080,812 | - | 23,451,812 |
| Depreciation | | | | |
| January 1, 2012 | - | 5,472,551 | 11,040,412 | 16,512,963 |
| Charge for the year | - | 529,215 | - | 529,215 |
| Adjustment | - | - | (11,040,412) | (11,040,412) |
| December 31, 2012 | - | 6,001,766 | - | 6,001,766 |
| Net book value | | | | |
| December 31, 2012 | 16,371,000 | 1,079,046 | - | 17,450,046 |
| December 31, 2011 | 16,371,000 | 795,089 | - | 17,166,089 |

9. ACCOUNTS PAYABLE AND ACCRUALS

| | 2012 SR | 2011 SR |
|--|--------------------|--------------------|
| Trade payables | 54,587,300 | 51,121,110 |
| Accrued expenses | 36,338,937 | 23,439,680 |
| Zakat (note 10) | 14,206,186 | 14,474,125 |
| Amounts due to related parties (note 18) | 1,860,070 | 1,877,989 |
| Other payables | 14,242,982 | 17,345,446 |
| | 121,235,475 | 108,258,350 |

10. ZAKAT

The principal elements of the zakat base of the Parent Company are as follows:

| | 2012 SR | 2011 SR |
|------------------------------|-------------|-------------|
| Non-current assets | 700,805,715 | 535,563,803 |
| Non-current liabilities | 174,772,034 | 117,882,356 |
| Opening shareholders' equity | 668,531,641 | 571,876,870 |
| Net income before zakat | 178,798,520 | 161,692,172 |
| Spare parts | 644,335 | 818,093 |

Some of these amounts have been adjusted in arriving at the zakat charge for the year.

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The movement in zakat provision is as follows:

| | 2012 SR | 2011 SR |
|--|-------------|-------------|
| January 1 | 14,474,125 | 6,977,539 |
| Provision for the year | 14,206,186 | 14,091,977 |
| Payments during the year | (8,818,482) | (8,507,531) |
| (Over) under provision for prior years | (5,655,643) | 1,912,140 |
| December 31 | 14,206,186 | 14,474,125 |

The charge for the year for zakat is as follows:

| | 2012 SR | 2011 SR |
|---|-------------|------------|
| Zakat for current year | 14,206,186 | 14,091,977 |
| (Over) under provision for prior year | (5,655,643) | 1,912,140 |
| Charged to consolidated statement of income | 8,550,543 | 16,004,117 |

Outstanding assessments

Zakat returns have been filed and paid for all years through 2011 and zakat certificates have been received. Final zakat assessments for the Company have been received up to 2007 from the DZIT. In 2011, the Company received its final assessment for 2008 from the DZIT which showed an additional zakat due of SR 0.5 million. The Company filed an appeal against the assessment received with the Preliminary Objection Committee ("POC") and the additional zakat claimed by the DZIT has been provided for. Final zakat assessments for the years from 2009 to 2011 are under review by the DZIT.

11. TERM LOANS

| | 2012 SR | 2011 SR |
|-----------------------|--------------|--------------|
| Ministry of Finance | 26,375,454 | 28,948,677 |
| Commercial banks | 182,737,255 | 109,550,390 |
| | 209,112,709 | 138,499,067 |
| Less: current portion | (46,273,146) | (27,386,462) |
| Non-current portion | 162,839,563 | 111,112,605 |

Ministry of Finance loans:

The balance consists of two long term loans obtained by the Group from the Ministry of Finance which are repayable in 16 annual installments. These loans are commission free and are secured by a mortgage over the property of hospitals in Dammam and Qateef (note 7).

Commercial bank loans:

The Group obtained certain long term loan facilities from various local commercial banks for acquisition, construction and upgrading of hospitals. These loans are secured by promissory notes issued by the Parent Company and assignment of certain receivables. Commission on these loans is based on Saudi Inter-Bank- Offered Rate (SIBOR) plus agreed margins per annum. The terms of the loans are varying from 2.5 years to 8.5 years and repayable in varying monthly installments.

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The facility agreements with commercial banks contain certain covenants, which include among other things, require certain financial ratios to be maintained and restriction on distribution of dividends by a subsidiary.

Aggregate maturities of the long term loans at December 31 were as follows:

| | <u>SR</u> |
|------------|--------------------|
| 2013 | 46,273,146 |
| 2014 | 78,209,224 |
| 2015 | 36,489,555 |
| 2016 | 14,543,223 |
| Thereafter | 33,597,561 |
| | <u>209,112,709</u> |

Installments of the above long term loans due in 2013 are shown as current liabilities in the consolidated balance sheet.

Bank facilities

The Parent Company obtained bank facilities ("the Facilities") from local banks in the form of short term Islamic Murabaha and working capital loans, letters of credit and guarantee and long term loans to finance the construction of new and expansion of existing hospitals and staff accommodations. The Facilities carry commission at the prevailing market rates. The Facilities are secured by promissory notes and deposits of collection from a customer.

12. DIVIDENDS

During the first quarter ended March 31, 2012, the Board of Directors proposed a cash dividend of SR 3 per share amounting to SR 75 million for the year 2011 (Number of share: 25 million) for the approval of the shareholders in the General Assembly Meeting (In 2011, the Parent Company distributed a cash dividend of SR 2 per share amounting to SR 50 million for the year 2010).

In April 2012, the dividend was approved along with the bonus shares (note 1) by the shareholders at the Extra Ordinary General Assembly Meeting. The Board of Directors in their meeting dated 4 Safar 1434 (corresponding to December 17, 2012) proposed the General Assembly a cash dividend of SR 1.5 per share amounting to SR 75 million for the approval of the shareholders in the General Assembly Meeting.

13. NON-CONTROLLING INTERESTS

Non-controlling interests represent minority shareholders' interest of 49% (2011: 49%) interest in the Eastern Medical Services Company Limited and 5% (2011: 5%) interest in Specialized Medical Clinic Company Limited.

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14. SEGMENTAL INFORMATION

Business segments:

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

| | In-patient SR | Out-patient SR | Pharmaceuticals SR | Total SR |
|---------------------------------------|------------------|-------------------|-----------------------|---------------|
| 2012 | | | | |
| For the year ended December 31 | | | | |
| Revenues | 274,536,245 | 357,703,673 | 164,274,241 | 796,514,159 |
| Gross profit | 140,101,311 | 182,543,304 | 50,063,612 | 372,708,227 |
| As of December 31 | | | | |
| Property and equipment, net | 302,731,964 | 227,048,973 | 158,246,252 | 688,027,189 |
| Total assets | 539,077,423 | 404,308,067 | 281,790,469 | 1,225,175,959 |
| Total liabilities | 181,088,333 | 135,816,249 | 94,659,809 | 411,564,391 |
| 2011 | | | | |
| For the year ended December 31 | | | | |
| Revenues | 228,963,018 | 301,041,613 | 148,436,937 | 678,441,568 |
| Gross profit | 121,443,120 | 159,673,963 | 42,880,070 | 323,997,153 |
| As of December 31 | | | | |
| Property and equipment, net | 230,293,427 | 173,730,129 | 121,567,493 | 525,591,049 |
| Total assets | 431,509,673 | 325,524,841 | 227,785,700 | 984,820,214 |
| Total liabilities | 120,049,401 | 90,547,167 | 63,360,295 | 273,956,863 |

Geographical segments:

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

15. SELLING AND DISTRIBUTION EXPENSES

| | 2012 SR | 2011 SR |
|----------------------------|-------------------|-------------------|
| Employee costs | 24,191,583 | 20,028,400 |
| Advertising and promotions | 5,540,106 | 5,105,093 |
| Doubtful debts | 69,192,471 | 49,601,020 |
| | 98,924,160 | 74,734,513 |

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16. GENERAL AND ADMINISTRATIVE EXPENSES

| | 2012 | 2011 |
|---|-------------------|-------------------|
| | SR | SR |
| Employee costs | 48,383,160 | 40,056,799 |
| Water and electricity | 2,283,616 | 4,125,787 |
| Depreciation | 7,732,877 | 7,611,274 |
| Support services | 2,365,297 | 1,995,018 |
| Management incentives (note 18) | 5,147,837 | 3,534,326 |
| Repair and maintenance | 3,046,021 | 2,331,303 |
| Rental | 2,304,587 | 4,757,402 |
| Executive directors' salaries (note 18) | 2,985,000 | 1,470,000 |
| Others | 12,964,742 | 13,339,639 |
| | 87,213,137 | 79,221,548 |

17. OTHER INCOME

| | 2012 | 2011 |
|---|------------------|------------------|
| | SR | SR |
| Gain on disposal of property and equipment | 1,519,054 | 5,548,773 |
| Share of income from an associate (note 6) | 3,301,074 | 3,016,875 |
| Services provided to an affiliate | 288,815 | 223,920 |
| Change in fair value of profit rate swap contract | - | (208,881) |
| Other income (expense), net | 3,559,100 | (129,010) |
| | 8,668,043 | 8,451,677 |

18. RELATED PARTY TRANSACTIONS

The Group purchases include SR 17.2 million (2011: SR 13.8 million) from Al-Mouwasat International Company Limited, a company owned by certain shareholders of the Parent Company.

The Parent Company's executive directors' salaries are disclosed in note 16. Also, the amount of management incentives provided to the directors and senior management staff is disclosed in note 16.

Based on the recommendation of the Nomination Committee, which has been approved by the Board of Directors in their meeting held on December 17, 2012, the Board of Directors' remuneration amounting to SR 1,400,000 was determined for the year 2012 (2011: SR 1,400,000).

Pricing policies and terms of payment for these transactions are approved by the Group's management.

Amounts due from and due to related parties are shown in notes 4 and 9 respectively.

19. CAPITAL COMMITMENTS

The directors of the Parent Company have authorised future capital expenditure amounting to SR 302.8 million (2011: SR 186.7 million) mainly in connection with new hospitals in Riyadh and Khobar, extension of hospital buildings in Dammam and Jubail.

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20. CONTINGENT LIABILITIES

The Company provided guarantees on behalf of a subsidiary amounting to SR 5 million (2011: SR 5 million) in respect of a loan facility agreement signed with a local commercial bank.

21. RISK MANAGEMENT

Commission rate risk

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market rates. The Group is subject to commission rate risk on its commission bearing liabilities, which comprise term loans.

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group seeks to manage its credit risk with respect to customers by monitoring outstanding receivables. Adequate allowances are made for debts considered doubtful. At the balance sheet date, no significant credit risk was identified by the management.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Group limits its liquidity risk by ensuring that bank facilities are available. The Group's invoicing terms require amounts to be paid within 60 to 120 days of the date of the invoice. Trade payables are normally settled within 60 to 90 days of the date of purchase.

Currency risk

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

22. FAIR VALUE

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. Financial instruments comprise of financial assets, financial liabilities and derivative. The Group's financial assets consist of cash and cash equivalents, short term investment and accounts receivables and its financial liabilities consist of short term loans, long term loans and accounts payables and its derivative instrument consists of a profit rate swap contract.

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