MIDDLE EAST HEALTHCARE COMPANY
MEAHCO
(A Saudi Joint Stock Company)
JEDDAH - KINGDOM OF SAUDI ARABIA

THE CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT ACCOUNTANTS' REVIEW REPORT
FOR THE PERIOD FROM
JANUARY 01, 2017 TO JUNE 30, 2017

Aldar Audit Bureau
Abdullah AlBasri & Co.

Certified Accountants
Professional Partnership Co.
Licence 323 / 11 / 36 / 1
Member Firm of
Grant Thornton International

REPORT ON REVIEW OF INTERM FINANCIAL INFORMATION

To the Shareholders of
Middle East Healthcare Company
MEAHCO
Saudi Joint Stock Company
Jeddah – Kingdom of Saudi Arabia

Introduction:
We have reviewed the accompanying condensed interim consolidated balance sheet of **MIDDLE EAST HEALTHCARE COMPANY (MEAHCO)** – (the company) as of June 30, 2017, and the related condensed interim consolidated statements of profit and loss and comprehensive income for the three and six months periods ended June 30, 2017, interim consolidated statement of changes in shareholders' equity and the interim consolidated statement of cash flows for the six months ended June 30, 2017, together with the notes from (1) to (20). These interim consolidated financial statements are the responsibility of the Company's management. Management is responsible for the preparation and fair presentation of this condensed interim consolidated financial information in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review:
We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", as endorsed in the Kingdom of Saudi Arabia. A limited review of interim consolidated financial statements consists principally of applying analytical procedures to financial data and making inquiries of persons responsible in the Company for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion:
Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial information is not prepared, in all material respects, in accordance with IAS 34, as endorsed in the Kingdom of Saudi Arabia.

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Professional Partnership Co.
Jeddah Branch
CR 4030289400
Certified Accountants
Abdullah Al Basri & Co.

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Jeddah
August 10, 2017

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MIDDLE EAST HEALTHCARE COMPANY (MEAHCO)
(A Saudi Joint Stock Company)
CONDENSED INTERIM CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2017
(UNAUDITED)

	NOTE	June 30, 2017 SR.	December 31, 2016 SR	January 01, 2016 SR.
ASSETS				
Non-Current assets				
Operating fixed assets		1,038,551,723	883,197,979	877,630,413
Intangible assets		3,957,360	3,879,459	3,664,957
Capital work in progress		95,527,124	227,604,025	155,879,487
Total non-current assets		1,138,036,207	1,114,681,463	1,037,174,857
Current assets				
Inventories	6	106,407,831	90,647,345	77,004,440
Trade receivables	7	1,065,738,323	1,146,151,737	901,272,991
Advances, deposits, prepayments Other receivables		89,543,258	44,112,282	46,533,532
Cash and bank balances		101,070,506	155,090,776	55,800,376
Total current assets		1,362,759,918	1,436,002,140	1,080,611,339
Total assets		**2,500,796,125**	**2,550,683,603**	**2,117,786,196**
EQUITY AND LIABILTIES				
Equity				
Share capital	16	920,400,000	920,400,000	920,400,000
Statutory reserve		124,819,329	124,819,329	88,633,324
Retained earnings		527,308,670	549,173,636	395,606,340
Equity attributable to shareholders		1,572,527,999	1,594,392,965	1,404,639,664
Non-controlling interests		65,756,577	59,351,808	61,037,989
Total equity		1,638,284,576	1,653,744,773	1,465,677,653
Non-current liabilities				
Long term loans and borrowings	8	148,867,925	128,515,326	55,898,932
Other non-current financial liabilities		29,695,759	20,745,781	26,987,973
Deferred income /gain	9	23,405,396	16,302,619	18,217,991
End of service benefits	11	171,375,618	161,759,716	144,033,101
Total non-current liabilities		373,344,698	327,323,442	245,137,997
Current liabilities				
Loans and borrowings	8	121,564,715	186,731,384	95,126,260
Creditors, accrued and other liabilities	10	367,602,136	382,884,004	311,844,286
Total current liabilities		489,166,851	569,615,388	406,970,546
Total liabilities		862,511,549	896,938,830	652,108,543
Total equity and liabilities		**2,500,796,125**	**2,550,683,603**	**2,117,786,196**

Sobhi Abduljalil Batterjee
Chairman

Mohammed Mamoun Al Najjar
Chief Executive Officer

Alarma Varghese Thomas
Chief Financial Officer

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

MIDDLE EAST HEALTHCARE COMPANY (MEAHCO)
(A Saudi Joint Stock Company)
CONDENSED INTERIM CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2017
(UNAUDITED)

	NOTE	For three month from 1/4 to 30/6		For the six month from 1/1 to 30/6	
		2017	**2016**	**2017**	**2016**
Revenues	15	391,685,161	410,072,767	815,585,433	831,591,400
Cost of revenue		(212,653,726)	(197,588,091)	(425,717,106)	(402,487,726)
Gross profit		179,031,435	212,484,676	389,868,327	429,103,674
Selling and marketing expenses	12	(42,806,959)	(58,900,161)	(77,417,662)	(105,317,784)
General and administrative expenses	13	(82,110,183)	(77,027,679)	(156,150,294)	(143,549,500)
Results from operating activities		54,114,293	76,556,836	156,300,371	180,236,390
Other income		3,334,717	2,933,056	6,700,045	7,867,370
Earning before finance cost		57,449,010	79,489,892	163,000,416	188,103,760
Finance cost		(4,151,031)	(1,955,278)	(7,854,786)	(3,837,444)
Net profit before zakat		53,297,979	77,534,614	155,145,630	184,266,316
Zakat and income tax expenses		(2,715,827)	(3,805,225)	(6,025,827)	(6,511,912)
Net profit for the period		50,582,152	73,729,389	149,119,803	177,754,404
Profit attributable to:					
Shareholders' of the Company		57,098,164	74,074,784	162,215,034	178,275,177
Non-controlling interests		(6,516,012)	(345,395)	(13,095,231)	(520,773)
		50,582,152	73,729,389	149,119,803	177,754,404
Other Comprehensive Income:					
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		--	--	--	--
Total Comprehensive Income for the period		50,582,152	73,729,389	149,119,803	177,754,404
Comprehensive Income attributable to:					
Shareholders' of the Company		57,098,164	74,074,784	162,215,034	178,275,177
Non-controlling interests		(6,516,012)	(345,395)	(13,095,231)	(520,773)
		50,582,152	73,729,389	149,119,803	177,754,404
EARNINGS PER SHARE (Saudi Riyal)					
Basic and diluted earnings per share from net profit		0.58	0.77	1.69	1.85
Basic and diluted earnings per share from main operations		0.62	0.80	1.76	1.94
No of shares		92,040,000	92,040,000	92,040,000	92,040,000

Sobhi Abduljalil Batterjee
Chairman

Mohammed Mamoun Al Najjar
Chief Executive Officer

Alarma Varghese Thomas
Chief Financial Officer

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

MIDDLE EAST HEALTHCARE COMPANY (MEAHCO)
(A Saudi Joint Stock Company)
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE PERIOD FROM JANUARY 1, 2017 TO JUNE 30, 2017
(UNAUDITED)

	Capital	Statutory Reserve	Retained Earnings	Total Shareholders' Equity	Non-Controlling Interest	Total Equity
	SR.	SR.	SR.	SR.	SR.	SR.
Balance at 01/01/2016	920,400,000	88,633,324	395,606,340	1,404,639,664	61,037,989	1,465,677,653
Comprehensive income for the period	--	--	178,275,177	178,275,177	(520,773)	177,754,404
Dividend distributed			(184,080,000)	(184,080,000)		(184,080,000)
Balance as at 30/06/2016	920,400,000	88,633,324	389,801,517	1,398,834,841	60,517,216	1,459,352,057
Balance at 01/01/2017	920,400,000	124,819,329	549,173,636	1,594,392,965	59,351,808	1,653,744,773
Comprehensive income for the period	--	--	162,215,034	162,215,034	(13,095,231)	149,119,803
Dividend distributed	--	--	(184,080,000)	(184,080,000)		(184,080,000)
Advance towards share capital	--	--	--	--	19,500,000	19,500,000
Balance as at 30/06/2017	920,400,000	124,819,329	527,308,670	1,572,527,999	65,756,577	1,638,284,576

Sobhi Abduljalil Batterjee
Chairman

Mohammed Mamoun Al Najjar
Chief Executive Officer

Alarma Varghese Thomas
Chief Financial Officer

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

MIDDLE EAST HEALTHCARE COMPANY (MEAHCO)
(A Saudi Joint Stock Company)
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM JANUARY 1, 2017 TO JUNE 30, 2017
(UNAUDITED)

	June 30, 2017 SR.	June 30, 2016 SR.
FROM OPERATING ACTIVITIES		
Net profit for the period	149,119,803	177,754,404
Adjustment to reconcile net income to net cash (used in) provided by :		
Depreciation & Amortization	36,658,254	31,336,656
End of service benefits	9,615,902	9,697,955
Zakat	6,025,827	6,511,912
Net adjusted profit	201,419,786	225,300,927
Changes in operating assets and liabilities:		
Trade receivable	80,413,414	(229,843,938)
Inventories	(15,760,486)	(7,136,851)
Advances, deposits, prepayments and other receivables	(45,430,977)	10,568,048
Creditors, accrued and other liabilities	(24,669,309)	213,708,384
Net cash provided by operating activities	195,972,428	212,596,570
FROM INVESTING ACTIVITIES		
Operating fixed assets	(191,328,979)	(27,980,626)
Intangible assets	(526,954)	377,274
Capital work in progress	131,842,935	(43,434,726)
Net cash (used in) investing activities	(60,012,998)	(71,038,078)
FROM FINANCING ACTIVITIES		
Loans and borrowings	(44,814,070)	40,112,778
Other non-current financial liabilities	12,311,593	609,213
Deferred revenue	7,102,777	(957,687)
Dividend paid	(184,080,000)	(184,080,000)
Non-controlling interests	19,500,000	--
Net cash (used in) financing activities	(189,979,700)	(144,315,696)
NET CHANGE IN CASH AND BANK	(54,020,270)	(2,757,204)
CASH AND BANK AT BEGINNING OF THE PERIOD	155,090,776	55,800,376
CASH AND BANK AT END OF THE PERIOD	101,070,506	53,043,172

Sobhi Abduljalil Batterjee	Mohammed Mamoun Al Najjar	Alarma Varghese Thomas
Chairman	Chief Executive Officer	Chief Financial Officer

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

1. GENERAL INFORMATION

Middle East Healthcare Company (the "Company") and its subsidiaries (collectively the "Group") consist of the Company and its various branches and a subsidiary in Saudi Arabia. The Company was a closed joint stock company operating under commercial registration number 4030149460 dated Rabie Al-Thani 06, 1425 (H) corresponding to May 25, 2004 (G).

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

The main objective of the Company is managing, operating and maintaining hospitals, medical centers, educational centers, rehabilitation centers, physiotherapy, laboratories and radiology centers, pharmacies, construction and to buy land for the purpose of constructing medical projects.

The Company has investments in the following branches and subsidiaries (collectively referred to as the "Group") at the reporting periods:

(a) Direct and Indirect subsidiaries of the Company

(i) Operating entities/ subsidiary

Entry/Subsidiary name	Commercial Registration No.	Issued on	Corresponding To	Ownership interest (%) at June 30	
				2017	2016
Saudi German Hospital – Jeddah	4030124187	Safar 05, 1419	May 30, 1998	100%	100%
Saudi German Hospital – Riyadh	1010162269	Rajab 24, 1421	October 22, 2000	100%	100%
Saudi German Hospital – Aseer	5855019364	Dhul Hijjah 28, 1420	April 03, 2000	100%	100%
Saudi German Hospital – Madinah	4650032396	Safar 18, 1423	August 05, 2002	100%	100%
Abdul Jaleel Ibrahim Batterjee Sons Development Co.	4030181710	Shaban 04, 1429	August 06, 2008	100%	100%
Saudi German Hospital – Dammam	2050105713	Rajab 18, 1436	May 07, 2015	100%	100%
National Hail Company for Healthcare (NHC) A Closed Jointly Stock Co.	3350019735	Rajab 02, 1428	July 16, 2007	32.33%	32.33%

The Company hold 32.33% in NHC, however based on control exercised by the Group, NHC has been consolidated as subsidiary refer note 2.2. The 67.67% shares in NHC are disclosed as Non-Controlling interest.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation and Statement of Compliance

The consolidated financial statements of the Middle East Healthcare Company (the "Group") are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board ("IASB") and the requirements of the Regulations for Companies and the Company's By-Laws in so far as they relate to the preparation and presentation of the financial statements.

For all periods, up to and including the year ended December 31, 2016 the Group prepared its financial statements in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia, issued by Saudi Organizations for Certified Public Accountants ("SOCPA"). The first interim condensed consolidated statement for the three months' period ended on 31.03.2017 were prepared under IFRS as adopted by SOCPA which represent part of the period covered by its IFRS financial statements. The Group has consistently applied the same accounting policies throughout all the periods presented. IFRS 1 first-time Adoption of International Financial Reporting Standards has been applied. Refer to Note 4 for information on how the Group adopted IFRS.
The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale (AFS) financial assets that have been measured at fair value. The consolidated financial statements are presented in Saudi Riyal.

2.2 Basis of consolidation

The consolidated financial statements comprise of the financial statements of the Group and its subsidiaries.
Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.3 Summary of significant accounting policies

The following are the significant accounting policies applied by the Group in preparing its consolidated financial statements:

2.3.1 Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading.
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.3.2 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Group's management determines the policies and procedures for both recurring fair value measurement, such as derivatives and unquoted available-for-sale financial assets, and for nonrecurring measurement, such as assets held for distribution in discontinued operations.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

Management, in conjunction with the Group's valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

2.3.3 Zakat and Taxes

Zakat

The Company and its subsidiaries are subject to Zakat and income tax in accordance with the regulations of General Authority of Zakat and Income Tax ("GAZT"). Company's zakat and its share in zakat of subsidiaries and associates are charged to consolidated statement of income. Zakat and income tax attributable to other Saudi and foreign shareholders of the consolidated subsidiaries are charged to Non-Controlling interest in the accompanying consolidated statement of balance sheet. Additional zakat and income tax liability, if any, related to prior years' assessments arising from GAZT are accounted for in the period in which the final assessments are finalized.

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted at the reporting date where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax rules are subject to interpretation, and establishes provisions, if any.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences.

The carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority. Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or recognized in profit or loss.

2.3.4 Property, plant and equipment

Plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the profit or loss as incurred. The present value of the expected cost for the decommissioning of the asset after its use, is included in the cost of the respective asset if the recognition criteria for a provision are met. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Depreciation is calculated over the depreciable amount, which is the cost of an asset, less its residual value on a straight-line basis over the estimated useful lives of the assets as follows:

- Building 15 to 45 years
- Plant, machinery and equipment 4 to 15 years.
- Computer equipment 4 to 10 years
- Motor vehicles 4 to 10 years
- Furniture and fixtures 4 to 10 years
- Office equipment 4 to 10 years
- Leasehold improvement - period of lease or 20 years, whichever is less

Construction in progress and land are not depreciated. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the depreciation period or method, as appropriate, and are treated as changes in accounting estimates. The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

2.3.5 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

For arrangements entered into prior to January 01, 2017, the date of inception is deemed to be January 01, 2017 in accordance with IFRS 1 First-time Adoption of International Reporting Standards.

Group as a lessee

Finance leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in income statement.

Finance leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in income statement.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

2.3.6. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs incurred in connection with the borrowing of funds.

Borrowing costs incurred on or after the date of transition (January 01, 2017) for all eligible qualifying assets are capitalized. The borrowing costs capitalized under SOCPA on qualifying assets to the date of transition to IFRS are included in the carrying amount of assets at that date.

2.3.7 Intangible assets

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets.

Intangible assets are measured on initial recognition at cost. Subsequently, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. The right to use land are amortized over the concession period on a straight-line basis.

Intangible assets are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in income statement category consistent with the function.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

2.3.8 Financial instruments – Initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets
Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables, Available for Sale (AFS) financial assets as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of profit or loss. The losses arising from impairment are recognized in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables. This category generally applies to trade and other receivables.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either

(a) the Group has transferred substantially all the risks and rewards of the asset, or
(b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognized to the extent of its continuing involvement in it. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

ii) Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of profit or loss. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in profit or loss.

III) Financial liabilities
Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, or payables.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as follows:

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the consolidated statement of financial position only if there is a current enforceable legal right to offset the recognized amounts and an intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.3.9 Inventories

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition are accounted for on purchase cost on an average cost basis.

Finished goods:
Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to sell.

2.3.10 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit (CGU's) fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group's CGU to which the individual assets are allocated. These calculations are generally covering a period of five years and a long-term growth rate is applied to project future cash flows after that.

Impairment losses of continuing operations are recognized in the income statement, except for a property previously revalued where the revaluation was taken to OCI. In this case, the impairment is also recognized in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

2.3.11 Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

2.3.12 Cash dividend distribution to owners of equity

The Group recognizes a liability to make cash to owners of equity when the distribution is authorized and the distribution is no longer at the discretion of the Group. A distribution is authorized when it is approved by the shareholders. A corresponding amount is recognized in equity.

2.3.13 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

Re-measurements, comprising of actuarial gains and losses, are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods. Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment and the date on which the Group recognizes related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes changes in the net defined benefit obligation under 'cost of sales', 'administration expenses' and 'selling and distribution expenses' in the consolidated income statement, namely, service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements and net interest expense or income.

2.3.14 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The specific recognition criteria described below must also be met before revenue is recognized.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Rendering of services

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

2.3.15 Segment reporting

For management purposes, the Group is organized into business units based on its products and services and has three reportable segments, as follows:

Inpatient Services
Outpatient Services
Pharmacy Sales
Others

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements. Also, the Group's finance costs and income taxes are managed on a Group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

2.3.16 Foreign currencies

The Group's consolidated financial statements are presented in Saudi Riyal, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

2.3.17 Employee Benefits

Defined benefit plan

The Group operates an approved unfunded employees' end of service benefits plan for its permanent employees. The plan was approved by management / board of directors and meets the requirements of the Saudi Labor Law. The liability recognized in the balance sheet in respect of end of service benefit plan, is the present value of the defined benefit obligation at the balance sheet date.

Effective December 31, 2015, the Group has started using an independent actuary to ensure adequacy of provision for employees' end of service benefits. The provision for employees' end of service benefits is based on rules stated under the Saudi Arabian Labor and Workmen Law and is calculated periodically by an independent actuary using the projected unit credit method.

The Group recognizes past service cost, current service cost and interest cost directly in the consolidated statement of profit or loss. Amounts arising as a result of "Remeasurements", representing the actuarial gains and losses are recognized in the Statement of Financial Position immediately, with a charge or credit to "Other Comprehensive Income" in the periods in which they occur.

Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

2.3.18 Financial income and finance cost

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

2.3.19 Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

2.3.20 Government Grants and Government Assistance

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Where the grant relates to an asset, it is recognized as deferred income and released to income over the period of repayment of grant.

Where the Company receives non-monetary grants, the asset and the grant are recorded at nominal amounts and released to the income statement over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual installments. Where loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate or interest free, the effect of this favorable interest is regarded as government grant.

3. NEW STANDARDS NOT YET EFFECTIVE

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

3.1 Financial Instruments

IFRS 9 'Financial Instruments: Classification and Measurement' - replaces the guidance on classification and measurement of financial instruments in IAS 39 Financial Instruments Recognition and Measurement. The new standard requires a consistent approach to the classification of financial assets and replaces the numerous categories of financial assets in IAS 39 with two categories, measured at either amortized cost or at fair value. For financial liabilities, the standard retains most of the IAS 39 requirements, but where the fair value option is taken, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

The new standard (a) no longer requires the use of a specific quantitative threshold to determine if the hedging relationship is highly effective to qualify for hedge accounting; and (b) removes restrictions that prevented some economically rational hedging strategies from qualifying for hedge accounting;

The standard becomes effective for annual periods beginning on or after January 01, 2018 and is to be applied retrospectively with the exception of the general hedging phase which is applied prospectively. Early adoption is permitted. The Company is currently evaluating the impact the new standard on its consolidated financial statements.

3.2 Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15 - Revenue from Contracts with Customers ("IFRS 15"), which replaces IAS 11 - Construction Contracts, IAS 18 - Revenue and IFRIC 13 - Customer Loyalty Programmed ("IFRIC 13"), as well as various other interpretations regarding revenue. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 also contains enhanced disclosure requirements. IFRS 15 will be applied retrospectively for annual periods beginning on or after January 01, 2018. Early adoption is permitted. The Company is assessing the potential impact of this standard.

3.3 IFRS 16 "Leases"

IFRS 16 "Leases" was issued in January 2016 and is effective for years beginning on or after January 1, 2019, to be applied retrospectively or on a modified retrospective basis. It is intended to replace IAS 17 "Leases" and IFRIC 4 "Determining whether an arrangement contains a lease". IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer ("lessee") and the supplier ("lesser"). The standard brings most leases on-balance sheet for lessees under a single model, eliminating the previous classifications of operating and finance leases. The only exemption to this treatment is for lease contracts with duration of less than one year. The on-balance sheet treatment will result in the grossing up of the balance sheet due to a right-of-use asset being recognized with an offsetting liability. Lesser accounting under the standard remains largely unchanged with previous classifications of operating and finance leases being maintained. The Company is assessing the impact of this standard.

4. FIRST-TIME ADOPTION OF IFRS

The Condensed Interim Consolidated Financial Statements, for the period ended March 31, 2017 are the first the Group has prepared in accordance with IFRS. For periods, up to and including the year ended 31 December 2016, the Group prepared its financial statements in accordance with SOCPA.

Accordingly, the Group has prepared financial statements that comply with IFRS applicable as at June 30, 2017 together with the comparative period data for the year ended December 31, 2016 as described in the summary of significant accounting policies. In preparing the financial statements, the Group's opening statement of financial position was prepared as at January 01, 2016, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its SOCPA financial statements, including the statement of financial position as at January 01, 2016 and the financial statements for the year ended December 31, 2016.

Exemptions applied

IFRS 1 allows certain exemptions from the retrospective application of certain requirements under IFRS. The Group has applied the following transitional provision:

IAS 23 Borrowing Costs and capitalizes costs relating to all qualifying assets after the date of transition and has also not restated borrowing costs capitalized under SOCPA prior to transition date.

Estimates

The estimates at January 01, 2017 and at June 30, 2017 are consistent with those made for the same dates in accordance with SOCPA (after adjustments to reflect any differences in accounting policies).

The estimates used by the Group to present these amounts in accordance with IFRS reflect conditions at January 01, 2017, the date of transition to IFRS and as at June 30, 2017.

Defined benefit obligation

Under SOCPA, the Group recognized costs related to its defined benefit plan on an accrual basis. IFRS, defined benefit liabilities are recognized on an actuarial basis with the difference recognized in retained earnings.

Depreciation of property, plant and equipment

IAS 16 requires significant component parts of an item of property, plant and equipment to be depreciated separately. As explained in note 2.3.4, the cost of major inspections is capitalized and depreciated separately over the period to the next major inspection. At the date of transition to IFRS, an increase of SR 42,363,030 was recognized in property, plant and equipment net of accumulated depreciation due to separate depreciation of significant components of property, plant and equipment. This amount has been recognized against retained earnings.

MIDDLE EAST HEALTHCARE COMPANY (MEAHCO)
(A Saudi Joint Stock Company)
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the period from January 01, 2017 to June 30, 2017
(UNAUDITED)

In preparing its opening Condensed Consolidated Statement of Financial Position in accordance with IFRS Standards, the Group has adjusted amounts reported previously in Financial Statements prepared in accordance with SOCPA Standards. An explanation of how the transition from SOCPA Standards to IFRS Standards has affected the Group's financial position and financial performance is set out in Note 4.1 to 4.4.

4.1 Reconciliation of the Consolidated Balance Sheet

	Notes	As at December 31, 2016			As at June 30, 2016			As at January 01, 2016		
		SOCPA Standards	Effect of transition to IFRS	IFRS Standards	SOCPA Standards	Effect of transition to IFRS	IFRS Standards	SOCPA Standards	Effect of transition to IFRS	IFRS Standards
		SR	SR	SR	SR	SR	SR	SR	SR	SR
ASSETS										
Non-current assets										
Operating fixed assets	a	849,761,947	33,436,032	883,197,979	837,880,280	36,792,494	874,672,774	838,932,340	38,698,073	877,630,413
Intangible assets	b	–	3,879,459	3,879,459	–	2,889,291	2,889,291	–	3,664,957	3,664,957
Capital work in progress	c	226,705,383	898,642	227,604,025	199,058,015	256,198	199,314,213	155,879,487	–	155,879,487
		1,076,467,330	38,214,133	1,114,681,463	1,036,938,295	39,937,983	1,076,876,278	994,811,827	42,363,030	1,037,174,857
Current assets										
Inventories		90,647,345	–	90,647,345	84,141,291	–	84,141,291	77,004,440	–	77,004,440
Trade receivables	d	1,144,464,369	1,687,368	1,146,151,737	1,132,097,341	(980,412)	1,131,116,929	874,434,035	26,838,956	901,272,991
Advances, deposits, prepayments and other receivables	e	41,107,539	3,004,743	44,112,282	21,813,956	14,151,528	35,965,484	36,571,212	9,962,320	46,533,532
Cash and bank balances		155,090,776	–	155,090,776	53,043,172	–	53,043,172	55,800,376	–	55,800,376
Due from related party	d	1,687,368	(1,687,368)	–	244,422	(244,422)	–	18,454,160	(18,454,160)	–
		1,432,997,397	3,004,743	1,436,002,140	1,291,340,182	12,926,694	1,304,266,876	1,062,264,223	18,347,116	1,080,611,339
Total assets		2,509,464,727	41,218,876	2,550,683,603	2,328,278,477	52,864,677	2,381,143,154	2,057,076,050	60,710,146	2,117,786,196

4.1 Reconciliation of the Consolidated Balance Sheet (contd.)

	Notes	As at December 31, 2016			As at June 30, 2016			As at January 01, 2016		
		SOCPA Standards SR	Effect of transition to IFRS SR	IFRS Standards SR	SOCPA Standards SR	Effect of transition to IFRS SR	IFRS Standards SR	SOCPA Standards SR	Effect of transition to IFRS SR	IFRS Standards SR
EQUITY AND LIABILITIES										
Equity										
Share capital		920,400,000	–	920,400,000	920,400,000	–	920,400,000	920,400,000	–	920,400,000
Statutory reserve		124,819,329	–	124,819,329	88,633,324	–	88,633,324	88,633,324	–	88,633,324
Retained earnings		494,832,986	54,340,650	549,173,636	335,239,509	54,562,008	389,801,517	343,615,858	51,990,482	395,606,340
Non-controlling interests		59,351,808	–	59,351,808	60,517,216	–	60,517,216	61,037,989	–	61,037,989
Total equity		1,599,404,123	54,340,650	1,653,744,773	1,404,790,049	54,562,008	1,459,352,057	1,413,687,171	51,990,482	1,465,677,653
Non-current liabilities										
Loans and borrowings	i	145,113,182	(16,597,856)	128,515,326	85,939,294	(17,394,250)	68,545,044	73,293,182	(17,394,250)	55,898,932
Other non-current financial liabilities		20,745,781	–	20,745,781	24,721,798	–	24,721,798	26,987,974	–	26,987,974
Deferred income /gain	f	–	16,302,619	16,302,619	–	17,260,304	17,260,304	–	18,217,991	18,217,991
Employee benefits	g	178,784,873	(17,025,157)	161,759,716	168,611,279	(14,880,223)	153,731,056	153,855,339	(9,822,238)	144,033,101
Current liabilities										
Loans and borrowings	i	187,527,778	(796,394)	186,731,384	123,416,666	(823,740)	122,592,926	95,950,000	(823,740)	95,126,260
Creditors, accrued and other liabilities	e	319,988,644	62,895,360	382,884,004	485,500,005	49,439,964	534,939,969	293,302,385	18,541,900	311,844,285
Due to related parties	h	57,900,346	(57,900,346)	–	35,299,386	(35,299,386)	–	–	–	–
Total liabilities		910,060,604	(13,121,774)	896,938,830	923,488,428	(1,697,331)	921,791,097	643,388,880	8,719,663	652,108,543
Total equity and liabilities		2,509,464,727	41,218,876	2,550,683,603	2,328,278,477	52,864,677	2,381,143,154	2,057,076,051	60,710,145	2,117,786,196

4.2 Reconciliation of equity

	Note	As at December 31, 2016 SR	As at June 30, 2016 SR	As at January 01, 2016 SR
Total Equity under SOCPA standards		1,599,404,123	1,404,790,049	1,413,687,171
Operating fixed assets		37,315,491	39,681,785	42,363,030
Interest free MOF loan		(18,217,990)	(18,217,990)	(18,217,990)
Deferred income /gain		18,217,990	18,217,990	18,217,990
Actuarial valuation charge	8	17,025,159	14,880,224	9,627,451
		54,340,650	54,562,009	51,990,481
		1,653,744,773	1,459,352,058	1,465,677,652

4.3 Reconciliation of the Consolidation Profit and Loss account

		As at December 31, 2016			As at June 30, 2016		
		SOCPA Standards	Effect of transition to IFRS	IFRS Standards	SOCPA Standards	Effect of transition to IFRS	IFRS Standards
Revenues		1,615,641,155		1,615,641,155	831,591,400		831,591,400
Cost of revenue	a, g	(787,918,006)	662,041	(787,255,965)	(402,961,733)	474,007	(402,487,726)
Gross profit		827,723,149		828,385,190	428,629,667		429,103,674
Selling and marketing expenses		(181,309,345)		(181,309,345)	(105,317,784)		(105,317,784)
General and administrative expenses	a, g	(292,753,283)	4,061,194	(288,702,089)	(145,647,019)	2,097,521	(143,549,498)
Results from operating activities		353,660,521		358,373,756	177,664,864		180,236,392
Other income	f	16,421,223	1,915,371	18,336,594	6,909,684	957,686	7,867,370
Finance cost	f	(11,327,297)	(1,915,371)	(13,242,669)	(2,879,758)	(957,686)	(3,837,444)
Profit before zakat & tax		358,754,447		363,467,681	181,694,790		184,266,318
Zakat and income tax expense		(47,860)	(3,929,362)	(3,977,222)	-	(6,511,912)	(6,511,912)
Profit from continuing operations		358,706,587		359,490,459	181,694,790		177,754,406
Profit attributable to:							
Shareholders of the Company		361,860,048		362,643,920	182,215,563		178,275,179
Non-controlling interests		(3,153,461)		(3,153,461)	(520,773)		(520,773)
Profit for the period		358,706,587		359,490,459	181,694,790		177,754,406

4.4 Reconciliation of the Consolidation Profit and Loss account

		April to June 2016 (Three month)		
		SOCPA Standards	**Effect of transition to IFRS**	**IFRS Standards**
Revenues		410,072,767		410,072,767
Cost of revenue	a, g	(197,981,278)	393,187	(197,588,091)
Gross profit		212,091,489		212,484,676
Selling and marketing expenses		(58,900,161)		(58,900,161)
General and administrative expenses	a, g	(77,491,275)	463,596	(77,027,679)
Results from operating activities		75,700,053		76,556,836
Other income	f	2,454,214	478,842	2,933,056
Finance cost	f	(1,476,436)	(478,842)	(1,955,278)
Profit before zakat & tax		76,677,831		77,534,614
Zakat and income tax expense		–	(3,805,225)	(3,805,225)
Profit from continuing operations		76,677,831		73,729,389
Profit attributable to:				
Shareholders of the Company		77,023,226		74,074,784
Non-controlling interests		(345,395)		(345,395)
Profit for the period		76,677,831		73,729,389

4.5. Notes to the effect of IFRS Adoption

a. Operating fixed assets

Under SOCPA Standards all the fixed assets were capitalized under single component. IFRS requires to componentize the assets according to their estimated useful life. Therefore, componentization of assets resulted in increase of depreciation charge which is allocated to cost of sale and general and administrative expenses as per usage of the fixed assets.

b. Intangible assets

Software Licenses have been reclassified from Property, Plant and Equipment to be presented under Intangible Assets for fair presentation.

c. Capital work in progress

Capital work in progress have been reclassified from other receivables to be presented under capital work in progress for fair presentation.

d. Trade receivables

Receivable from related parties are shown as separate line item under trade receivables for fair presentation.

e. Advances, deposits, prepayments and other receivables

Advances to supplier are shown as separate line item reclassified from Creditors for fair presentation.

f. Loans and borrowings

Interest free loan from Ministry of Finance have been presented as per requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.

These loans have been discounted on market interest rate and deferred income arising from loan has been amortized over the loan repayment period.

Mark up expense arising from interest free loan has been grouped with Financial Charges and mark up payable is shown in note no. 10 under Creditors, Accrued and Other payables.

g. Employee benefits

Under SOCPA Standards, the Group recorded its liability under Employee Benefit based on regulatory requirements. In order to determine the liability under IFRS Standards, the Group performed detailed actuarial valuation of its Employee Benefits. Consequently, reduction of expense for the period has been reversed from profit or loss for the period. The detailed workings are shown in note no. 11.

h. Creditors, accrued and other payables

Payables to related parties have been shown as separate line item under creditors for fair presentation.

Advances to supplier are shown as separate line item under Advances, Deposits and prepayments, reclassified from Creditors for fair presentation.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of asset or liability affected in future periods.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the consolidated financial statements:

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested.

The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. There is no impairment as of June 30, 2017.

Taxes

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

Defined benefit

The cost of defined benefit plans and other post-employment benefits are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the defined benefit plan with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit plan. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are removed from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases are based on expected future inflation rates for the country. Refer Note 11.

Provision for doubtful debts

A provision for impairment of account receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. For significant individual amounts, assessment is made at individual basis. Amounts which are not individually significant, but are over-due, are assessed collectively and a provision is recognized considering the length of time considering the past recovery rates.

Provision for inventory obsolescence

The Group determines its provision for inventory obsolescence based upon historical experience, expected inventory turnover, inventory aging and current condition, and current and future expectations with respect to sales. Assumptions underlying the provision for inventory obsolescence include future sales trends, and the expected inventory requirements and inventory composition necessary to support these future sales and offerings. The estimate of the Group's provision for inventory obsolescence could materially change from period to period due to changes in product offerings of those products.

Useful lives of property, plant and equipment

The management determines the estimated useful lives of property, plant and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates.

6. INVENTORIES

This item consists of the following:

	June 30, 2017 SR.	December 31, 2016 SR.	January 01, 2016 SR.
Gross inventory	115,107,962	98,702,194	82,917,919
Provision for slow moving and Obsolescence	(8,700,131)	(8,054,849)	(5,913,479)
Net	106,407,831	90,647,345	77,004,440

Movement of provision for slow moving and obsolescence

	June 30, 2017 SR.	December 31, 2016 SR.	January 01, 2016 SR.
Opening balance	8,054,849	5,913,479	3,212,968
Add: Provision during the period	784,147	3,673,264	2,918,720
Less: Adjustment during the period	(138,865)	(1,531,894)	(218,209)
Closing balance	8,700,131	8,054,849	5,913,479

7. TRADE RECEIVABLES

This item consists of the following:

		June 30, 2017 SR.	December 31, 2016 SR.	January 01, 2016 SR.
Considered Good:				
Customers		1,314,711,968	1,422,766,455	1,132,016,156
Provision for impairment for customers		(256,152,832)	(278,302,086)	(257,582,120)
		1,058,559,136	1,144,464,369	874,434,036
Related parties	17.2	7,179,187	1,687,368	26,838,955
Net		1,065,738,323	1,146,151,737	901,272,991

8. LOANS AND BORROWINGS

This item consists of the following:

	June 30, 2017 SR.	December 31, 2016 SR.	January 01, 2016 SR.
Islamic banking facilities	201,522,856	260,027,778	98,450,000
Ministry of Finance	94,588,182	72,613,182	70,793,182
Transferred to deferred income	(25,678,398)	(17,394,250)	(18,217,990)
Net – Ministry of Finance	68,909,784	55,218,932	52,575,192
	270,432,640	315,246,710	151,025,192
Current portion:			
Islamic banking facilities	100,000,000	132,777,778	5,000,000
Islamic banking short term loans	16,111,110	48,500,000	84,700,000
Ministry of Finance	5,453,605	5,453,606	5,426,260
	121,564,715	186,731,384	95,126,260
Long term:			
Islamic banking facilities	85,411,746	78,750,000	8,750,000
Ministry of Finance	63,456,179	49,765,326	47,148,932
	148,867,925	128,515,326	55,898,932
Total	270,432,640	315,246,710	151,025,192

The loan from the banks are secured through issue of promissory notes from the company. The Ministry of Finance, interest free loan is secured by the mortgage of land and building of Saudi German Hospital – Riyadh, Madinah and Hail. The bank loans are priced at SIBOR plus an agreed mark up.

9. DEFERRED INCOME /GAIN

The movement in government grants are as follows:

	June 30, 2017 SR.	December 31, 2016 SR.	January 01, 2016 SR.
Opening balance	16,302,619	18,217,991	18,217,991
Accrued during the period	8,284,147	--	--
Transferred to the income statement	(1,181,370)	(1,915,372)	--
Closing balance	23,405,396	16,302,619	18,217,991

Government grants have been received for the purchase of certain items of property, plant and equipment. There are no unfulfilled conditions or contingencies attached to these grants.

10. CREDITORS, ACCRUED EXPENSES & OTHER PAYABLE

This item consists of the following:

		June 30, 2017 SR.	December 31, 2016 SR.	January 01, 2016 SR.
Creditors		251,402,263	242,104,196	198,124,087
Accrued & other payable		95,809,085	82,879,462	105,335,404
Due to related parties	17.3	20,390,788	57,900,346	8,384,795
Closing balance		367,602,136	382,884,004	311,844,286

11. EMPLOYEES BENEFITS

This item consists of the following:

		June 30, 2017 SR.	December 31, 2016 SR.	January 01, 2016 SR.
Opening balance – Restated	4.1	161,759,716	144,033,101	144,033,101
Current service cost		14,396,330	25,711,910	--
Benefit paid		(6,441,330)	(10,784,133)	--
Actuarial gain recognized in other Comprehensive income (OCI)		--	2,363,068	--
Other obligations		1,660,902	435,770	--
Closing balance		171,375,618	161,759,716	144,033,101

11.1 Defined benefit obligation as per SOCPA as on January 01, 2016	153,660,552
Less: Amount derecognized due to adoption of actuarial assumptions	(9,627,451)
	144,033,101

The most recent Actuarial Valuation was performed by Canadian Benefit Associates Inc. using the project unit credit method.

The principal assumptions used for the purposes of the actuarial valuation were as follows:

Discount rate	3.82% per annum
Salary scale	3.00% per annum
Retirement age	60 years
Mortality table	CPM 1999 table with generational projection to 2017 with CPM_B scale

Discount Rate Sensitivity Analysis

Central Assumption	3.82%
DBO	159,482,637
Gross Service Cost	20,234,962
Sensitivity Assumption	2.82%
DBO – Nominal amount	177,261,282
DBO – Percentage difference	11.15%
Gross service cost – Nominal amount	24,105,379
Gross service cost – Percentage difference	15.77%
Sensitivity assumption	4.82%
DBO – Nominal amount	145,412,518
DBO – Percentage difference	(8.82%)
Gross service cost – Nominal amount	18,174,494
Gross service cost – Percentage difference	(12.72%)

12. SELLING AND MARKETING EXPENSES

This item consists of the following:

	June 30, 2017 SR	June 30, 2016 SR
Advertisement and marketing	5,429,738	1,796,065
Sales promotion expenses	1,083,048	1,117,261
Provision for Rejections, discount, bad and doubtful debts	70,904,876	102,404,458
Total	77,417,662	105,317,784

13. GENERAL AND ADMINISTRATIVE EXPENSES

This item consists of the following:

	June 30, 2017 SR	June 30, 2016 SR
Salaries, benefits and allowances	84,804,648	78,729,789
Staff accommodation and related expenses	9,776,335	9,905,616
Staff health insurance expenses	9,533,035	9,108,174
Travelling expenses	13,454,733	11,666,566
Repair and maintenance	2,534,773	1,967,077
Postage, telephone and internet	3,615,661	2,069,586
Security	3,680,957	3,406,597
Insurance	1,053,524	592,701
Audit and consultancy fees	8,290,903	7,614,041
Supplies	5,062,480	4,006,030
Director's remuneration	1,357,747	1,493,000
Bank charges	594,081	383,168
Depreciation & amortization	5,269,929	4,496,887
Other expenses	7,121,488	8,110,268
Total	156,150,294	143,549,500

14. FINANCIAL RISK AND CAPITAL MANAGEMENT

The SGH Group financial assets and liabilities are as follows:

	June 30, 2017 SR	December 31, 2016 SR	January 01, 2016 SR
Cash and bank balances	101,070,506	155,090,776	55,800,376
Trade receivables	1,065,738,323	1,146,151,737	901,272,991
Loans and advances (included In other receivables)	1,743,193	2,334,006	3,296,304
Trade payables	251,402,263	242,104,196	198,124,087
Other accounts payables	116,199,873	140,779,810	113,720,199
Short term loans	121,564,715	186,731,384	95,126,260
Long term loans	148,867,925	128,515,326	55,898,932
Long term non-current liabilities	29,695,759	20,745,781	26,987,973

All the Group's financial assets and liabilities are carried at amortized cost. Loans and receivables are non-derivatives financial assets carried at amortized cost which generate a fixed or variable interest income for the Group. The carrying value may be affected by changes in the credit risk of the counterparties.

The Group has exposure to the following financial risks from its use of financial instruments:

Credit risk
Liquidity risk
Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing financial risk and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk Management framework and policies. The Group's risk management policies are established to identify and analyze the risks faced by the Group to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group through its training and management standards and procedures aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations with regards to financial risk management.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group manages credit risk in trade debts by limiting significant exposure to the customers not having good credit history. Furthermore, the Group has credit policy in place to ensure that services are rendered to customers with an appropriate credit history.

The Group is also exposed to credit risk from its operating and short term investing activities. The Company's credit risk exposures are categorized under the following headings:

Counterparties

The Group conducts transactions with the following major types of counterparties:

Trade debts

Trade debts are essentially due from Ministry of Health, other government companies / institutions, insurance companies, private companies, charitable institutions and individuals to whom the Group is providing medical services. The services are rendered to the customers as per agreements with respective customers. The credit terms are extended to customer where the Group does not expect any inability to meet their obligations. Trade debt credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive internal credit rating and individual credit terms are defined in accordance with this assessment.

The requirement for an impairment is analysed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Cash and investments

The Group limits its exposure to credit risk by investing in liquid securities and maintaining bank accounts only with counterparties that have a good credit rating.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	June 30, 2017 SR	December 31, 2016 SR	January 01, 2016 SR
Trade debts – considered goods	1,065,738,323	1,146,151,737	901,272,991
Loans and advances	1,743,193	2,334,006	3,296,304
Bank balances	97,959,437	152,548,861	53,580,486
Total	1,165,440,953	1,301,034,604	958,149,781

The maximum exposure to credit risk for trade debts at the reporting date by type of customer was:

	June 30, 2017 SR.	December 31, 2016 SR.	January 01, 2016 SR.
Government institutions	770,078,116	913,492,569	750,093,822
Insurance companies	410,328,792	323,671,363	233,261,660
Others	127,134,233	185,602,522	148,660,674
	1,307,541,141	1,422,766,454	1,132,016,156
Related parties	7,179,187	1,687,368	26,838,955
Total	1,314,720,328	1,424,453,822	1,158,855,111

The movement in the allowance for impairment in respect of trade debts during the period was as follows:

Balance as on January 1, 2016	257,582,120
Provisions made during the period	102,404,458
Less: Adjustments made during the period	45,766,008
Balance as on June 30,2016	314,220,570
Provisions made during the period	71,102,349
Less: Adjustments made during the period	107,020,833
Balance as on December 31, 2016	278,302,086
Provisions made during the period	70,904,876
Less: Adjustments made during the period	93,054,130
Balance as on June 30, 2017	256,152,832

The allowance account in respect of trade debts is used to record impairment losses where the Group is satisfied that recovery of the due amount is doubtful, and when the amount considered irrecoverable it is written off against the financial asset.

The Group believes that no impairment allowance is necessary in respect of loan and advances, deposits and other financial assets as the recovery of such amounts is possible.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The liquidity position of the Group is monitored by the Board through budgets, cash flow projections and comparison with actual results. For this purpose, the Group has working capital facilities as mentioned below:

	June 30, 2017 SR.	December 31, 2016 SR.	January 01, 2016 SR.
Total working capital facilities	195,000,000	95,000,000	95,000,000
Utilized	--	48,500,000	59,700,000

These are the total facilities from different bankers of the Group. The Group can avail different facilities like letter of credit, letter of guarantees, revolving facility at SIBOR + an agreed mark up These facilities are secured by promissory notes from the company and is subject to certain financial covenants

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, markup rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The Group is exposed mark-up rate risk. There is no currency risk as Group is dealing only in USD which is pegged to SR and there is no exchange rate variations.

Foreign currency risk

Exposure to foreign currency risk

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings and cash in foreign currency bank account.

Saudi Riyal is pegged to USD @ 3.75 therefore the Company's exposure to foreign currency risk is very minimal. The Company manages its Euro balances with regular monitoring. The euro balances are minimal with no significant impact of a change in the conversion rate on the net profit of the Group.

Market rate risk

The market rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate due to changes in the market markup rates and foreign currency risk. Sensitivity to markup rate risk arises from mismatches of financial assets and liabilities that mature in a given period. The Group's exposure to the risk of changes in market markup rates relates primarily to Group's long term debt obligations with floating markup rates.

The Group analyses its markup rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined markup rate shift. For each simulation, the same markup rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major markup-bearing positions.

Profile

At the reporting date the markup rate profile of the Group's markup-bearing financial instruments is:

The Group's banking facilities are priced at SIBOR plus mark up applicable at the time of granting the facility and depends on the tenure, prevailing market condition and relevant credit risk

Fair value of financial instruments

Fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

The fair value hierarchy has not been presented in these financial statements, as the Group does not hold any such financial instrument in its portfolio.

Capital management

Capital includes equity attributable to the equity holders of the parent. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain a strong capital base to support the sustained development of its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. There were no changes to the Group's approach to capital management during the period.

15. OPERATING SEGMENT INFORMATION

Business segments

For management purposes, the Group is organized into business units based on their nature of business and has three reportable operating segment as follows:

Inpatient Services
Outpatient Services
Pharmacy Sales
Others

None other operating segments have been aggregated to form the above reportable operating segments.

Sale of Medical Equipment and Hospital Management Services have been aggregated in Others for the purpose of reconciliation. The two segments do not meet the criteria of operating segment reporting even aggregated further their nature of business and economic environments are different to each other.

Management monitors the operating results of its operating segments separately for the purpose of performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

	June 30, 2016				
	In Patient Services	Out Patient Services	Pharmacy Sales	Others	Total
	SR.	SR.	SR.	SR.	SR.
Revenue	471,213,375	200,051,421	145,964,798	14,361,806	831,591,400
Salaries	(124,356,942)	(55,695,509)	(2,826,717)	--	(182,879,168)
Consumables	(45,042,847)	(26,547,688)	(86,216,891)	(3,221,490)	(161,028,916)
Depreciation	(17,860,949)	(8,260,057)	(718,763)	--	(26,839,769)
Other direct cost	(20,585,560)	(8,669,339)	(2,484,974)	--	(31,739,873)
Cost of Revenue	(207,846,298)	(99,172,593)	(92,247,345)	(3,221,490)	(402,487,726)
Gross Profit	263,367,077	100,878,828	53,717,453	11,140,316	429,103,674
General & administrative					(143,549,500)
Selling and distribution					(105,317,784)
Net Profit for Segment					180,236,390
Zakat and income tax expenses					(6,511,912)
Unallocated Expenses/Income					
Finance charges					(3,837,444)
Other Income					7,867,370
Profit for the period					177,754,404
Non-Current Assets					
Inventory					84,141,291
Accounts Receivable					1,130,841,557
Segment Assets					1,214,982,848
Non Allocated Assets					
Non-Current Assets					1,076,876,278
Other Current Assets					36,240,856
Cash & Bank Balance					53,043,172
					1,166,160,306
Total Assets					2,381,143,154

Segment Liabilities	
Creditors, Accrued & Other Liabilities	534,939,969
Employee Benefits	153,731,056
	688,671,025
Loans & Borrowings	191,137,970
Other Payables	24,721,798
Deferred Income	17,260,304
Equity	1,459,352,057
Total Other Liabilities	**1,692,472,129**
Total Liabilities	**2,381,143,154**

	June 30, 2017				
	In Patient Services	**Out Patient Services**	**Pharmacy Sales**	**Others**	**Total**
	SR	SR	SR	SR	SR
Revenue	467,281,028	197,784,717	142,709,374	7,810,314	815,585,433
Salaries	(133,850,363)	(66,617,080)	(2,865,195)		(203,332,638)
Consumables	(37,328,369)	(18,131,847)	(102,226,895)	393,829	(157,293,282)
Depreciation	(20,703,883)	(10,645,418)	(39,025)		(31,388,326)
Other direct cost	(20,115,262)	(10,631,181)	(2,956,417)		(33,702,860)
Cost of Revenue	(211,997,877)	(106,025,526)	(108,087,532)	393,829	(425,717,106)
Gross Profit	255,283,151	91,759,191	34,621,842	8,204,143	389,868,327
General & administrative					(156,150,294)
Selling and distribution					(77,417,662)
Net Profit for Segment					156,300,371
Zakat					(6,025,827)
Unallocated Expenses/Income					
Finance charges					(7,854,786)
Other Income					6,700,045
Profit for the period					149,119,803
Inventory					106,407,831
Accounts Receivable					1,058,559,136
Segment Assets					1,164,966,967

Non Allocated Assets	
Non Current Assets	1,138,036,207
Other Current Assets	96,722,445
Cash & Bank Balance	101,070,506
	1,335,829,158
Total Assets	2,500,796,125
Segment Liabilities	
Creditors, Accrued & Other Liabilities	367,602,136
Employee Benefits	171,375,618
	538,977,754
Loans & Borrowings	270,432,640
Other Payables	29,695,759
Deferred Income	23,405,396
Equity	1,638,284,576
Other Liabilities	1,961,818,371
Total Liabilities	2,500,796,125

The Group's revenue from external customers consists of within the geographical location of KSA only.

Significant non-current assets of the Group as at reporting dates are located and operating in KSA.

16. CAPITAL

The authorized, issued and paid-up capital of the Company is SR 920,400,000 divided into 92,040,000 equal shares at SR. (10) each.

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

17. RELATED PARTY TRANSACTIONS

17.1 During the period, the Company transacted with following related parties:

Name	Relationship
Bait Al Batterjee Medical Company	Holding Company
Bait Al Batterjee Medical College for Sciences and Technology	Affiliate
International Hospital Construction Company	Affiliate
Bait Al Batterjee Company for Education and Training	Affiliate
Bait Al Batterjee Pharmaceutical Company	Affiliate
Bait Al Batterjee Company for Fitness	Affiliate
Abdul Jalil Khalid Batterjee Medical Instrumentation Maintenance Company	Affiliate
Gulf Youth Company for Investment and Real Estate	Affiliate
Development (JAN-PRO)	Affiliate
Emirate Healthcare Development Company	Affiliate

17.2 Amount due from related parties represent services rendered in the normal course of business approved by the management, outstanding amount at the period end comprised of the followings:

	June 30, 2017 SR	December 31, 2016 SR	January 01, 2016 SR
Bait Al Batterjee Medical Company	--	--	4,573,992
Bait Al Batterjee Company for Education and Training	445,179	396,894	762,361
Bait Al Batterjee Medical College for Sciences and Technology	2,201,436	--	2,277,451
Bait Al Batterjee Company for Fitness	--	--	424,431
Emirate Healthcare Development Company	4,532,572	1,290,474	18,800,720
	7,179,187	1,687,368	26,838,955

17.3 Amount due to related parties represent services rendered in the normal course of business approved by the management, outstanding amount at the period end, comprised of the followings:

	June 30, 2017 SR	December 31, 2016 SR	January 01, 2016 SR
Bait Al Batterjee Pharmaceutical Company	3,082,173	5,615,667	2,353,821
Abdul Jalil Khalid Batterjee Medical Instrumentation Maintenance Company	477,189	1,596,371	1,283,609
International Hospital Construction Company	16,324,304	50,688,308	4,747,365
Gulf Youth Company For Investment & Real Estate Development – (JAN PRO)	507,122	--	--
	20,390,788	57,900,346	8,384,795

18. DIVIDEND DISTRIBUTION

The Board of Director's at their meeting held on March 02, 2017 (G) corresponding to 03/06/1438 (H) proposed a cash dividends of SR 2 per share amounting to SR 184.08 Million for the year ended December 31, 2016 which was subsequently approved by the shareholders in the General Assembly Meeting held on June 08, 2017 (G) corresponding to 13/09/1438 (H).

19. COMPARATIVE FIGURES

Certain amounts of prior periods have been reclassified to conform to the current period presentation as per International Financial Reporting Standards.

20. FINANCIAL STATEMENTS APPROVAL

These interim financial statements were approved by the Company's Board of Directors as on Dhul Qada 18, 1438(H) corresponding to August 10, 2017.