MIDDLE EAST HEALTH CARE COMPANY LIMITED
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019
together with the Independent Auditors' Report

MIDDLE EAST HEALTH CARE COMPANY LIMITED
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

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License No. 46/11/323 issued 11/3/1992

Independent auditors' report

To the Shareholders of Middle East Health Care Company

Opinion

We have audited the consolidated financial statements of Middle East Health Care Company ("the Company") and its subsidiary ("the Group") which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Refer Note 4 (j) for the accounting policy relating to revenue recognition and Note 5 for revenue disclosure as per segments.

Key audit matter	How the matter was addressed in our audit
During the year ended 31 December 2019, the Group recognized total revenue of SR 1,496,646,913 (2018: SR 1,390,690,393). The Group recognizes revenue upon performance of medical and trading service and is measured at the fair value of the consideration received or receivable. Revenue recognition is considered as a key audit matter as there is a risk that revenue may be misstated due to management's override of controls and judgement involved in estimating the related rejections rates.	We performed the following among other procedures: - Assessed the appropriateness of the Group's revenue recognition accounting policies by considering the requirements of relevant accounting standards; - Assessed the design and implementation, and tested the operating effectiveness of the Group's internal controls, including anti-fraud controls, over the recognition of revenue; - Performed test of details and inspected invoices on a sample basis to ensure that they had been accurately recorded in the correct period. - Assessed the design and implementation of the process established by the Group in relation to the estimates of rejection rates. - Performed a retrospective review of actual claims settled to the original gross claims on a sample basis. - Considered the adequacy of the related disclosure in the Group's consolidated financial statements.

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Independent auditors' report

To the Shareholders of Middle East Health Care Company (continued)

Valuation of receivables

Refer Note 4 (b) for the accounting policy of Financial instruments and Note 9 for the accounts receivable disclosure.

Key audit matter	How the matter was addressed in our audit
As at 31 December 2019, the carrying value of accounts receivable amounted to SR 1,273,712,165 (2018: SR 1,167,439,334 million) and the allowance for expected credit losses on such balance amounted to SR 165,135,773 million (2018: SR 189,670,489 million). The Group's management has applied a simplified expected credit loss ("ECL") model to determine the allowance for impairment of accounts receivable. The ECL model involves the use of various assumptions covering macro-economic factors and study of historical trends. We considered this a key audit matter due to the judgements and estimates involved in the application of the expected credit loss model for the calculation of the allowance for expected credit losses.	We performed the following among other procedures: - Assessed the appropriateness of the assumptions used by the management in the expected credit losses (ECL) model. - Tested significant assumptions, including those related to historical trends and future economic events that were used to calculate the likelihood of default and the expected loss on default and tested the arithmetical accuracy of the ECL model and appropriateness of allowance recorded. We also involved our internal specialist to recalculate the allowance for expected credit losses. - Considered the adequacy of the related disclosure in the Group's consolidated financial statements.

Independent auditors' report

To the Shareholders of Middle East Health Care Company (continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, when made available to us, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization of Certified Public Accountants (SOCPA), the applicable requirements of the Regulations for Companies and Company's By-laws and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing ("ISAs") that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Independent auditors' report

To the Shareholders of Middle East Health Care Company (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of Middle East Health Care Company ("the Company") and its subsidiary ("the Group").

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No: 382

Jeddah, 24 Rajab 1441H
Corresponding to 19 March 2020

MIDDLE EAST HEALTH CARE COMPANY LIMITED
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019
(Expressed in Saudi Arabian Riyals unless otherwise stated)

	Notes	**31 December 2019**	31 December 2018
ASSETS			
Non-current assets			
Property and equipment	6	**1,909,443,240**	1,534,152,228
Right-of-use assets	17	**30,454,243**	--
Intangible assets	7	**4,940,977**	4,934,572
Total non-current assets		**1,944,838,460**	1,539,086,800
Current assets			
Inventories	8	**124,514,002**	116,692,818
Accounts receivable	9	**1,108,576,392**	977,768,845
Prepayments and other current assets	10	**73,685,359**	49,194,006
Cash and cash equivalents	11	**53,882,840**	44,218,703
Total current assets		**1,360,658,593**	1,187,874,372
Total assets		**3,305,497,053**	2,726,961,172
EQUITY AND LIABILITIES			
Equity			
Share capital	12	**920,400,000**	920,400,000
Statutory reserve	13	**181,809,384**	172,052,549
Retained earnings		**420,506,362**	353,289,259
Equity attributable to shareholders of the Company		**1,522,715,746**	1,445,741,808
Non-controlling interest	14	**39,098,696**	44,997,172
Total equity		**1,561,814,442**	1,490,738,980
Liabilities			
Non-current liabilities			
Long-term loans, non-current portion	15	**643,448,510**	329,681,357
Other non-current financial liabilities	16	**24,618,490**	32,635,149
Lease obligations - non-current portion	17	**27,132,546**	--
Deferred income	18	**15,247,580**	18,732,048
Employees' end of service benefits	19	**212,632,946**	179,406,566
Total non-current liabilities		**923,080,072**	560,455,120
Current liabilities			
Short-term borrowings and current portion of long-term loans	15	**356,709,826**	286,652,385
Current portion of other non-current financial liabilities	16	**11,256,031**	21,968,754
Current portion of lease obligations	17	**4,180,880**	--
Accounts payable	20	**337,056,142**	270,354,528
Accrued expenses and other current liabilities	21	**106,751,583**	90,691,409
Zakat payable	22	**4,648,077**	6,099,996
Total current liabilities		**820,602,539**	675,767,072
Total liabilities		**1,743,682,611**	1,236,222,192
Total equity and liabilities		**3,305,497,053**	2,726,961,172

Sobhi Abduljalil Batterjee Chairman	Ahmed Mohamed Shebl Chief Executive Officer	Madani Hozaien Chief Financial Officer

The annexed notes 1 to 33 form an integral part of these consolidated financial statements.

MIDDLE EAST HEALTH CARE COMPANY LIMITED
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019
(Expressed in Saudi Arabian Riyals unless otherwise stated)

	Notes	2019	2018
Revenue		**1,496,646,913**	1,390,690,393
Cost of revenue	24	**(1,023,715,843)**	(889,943,233)
Gross profit		**472,931,070**	500,747,160
Selling and marketing expenses	25	**(14,777,057)**	(10,173,385)
General and administrative expenses	26	**(354,886,559)**	(327,842,647)
Operating profit		**103,267,454**	162,731,128
Other income, net	27	**17,127,910**	19,040,254
Finance cost, net	28	**(25,112,389)**	(11,105,232)
Net profit before Zakat		**95,282,975**	170,666,150
Zakat	22	**(5,175,471)**	(6,099,996)
Net profit for the year		**90,107,504**	164,566,154
Other comprehensive income:			
Items that will not be classified to profit or loss:			
Re-measurement on actuarial (loss) / gain	19	**(20,732,042)**	8,346,835
Total comprehensive income for the year		**69,375,462**	172,912,989
Net profit / (loss) for the year attributable to:			
Shareholders of the Company		**97,568,347**	172,249,371
Non-controlling interest		**(7,460,843)**	(7,683,217)
Net profit for the year		**90,107,504**	164,566,154
Total comprehensive income for the year attributable to:			
Shareholders of the Company		**76,973,938**	180,447,527
Non-controlling interest		**(7,598,476)**	(7,534,538)
Total comprehensive income for the year		**69,375,462**	172,912,989
Earnings per share based on the profit attributable to the shareholders of the Company			
Basic and diluted earnings per share	29	**1.06**	1.87

Sobhi Abduljalil Batterjee
Chairman

Ahmed Mohamed Shebl
Chief Executive Officer

Madani Hozaien
Chief Financial Officer

The annexed notes 1 to 33 form an integral part of these consolidated financial statements.

MIDDLE EAST HEALTH CARE COMPANY LIMITED
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019
(Expressed in Saudi Arabian Riyals unless otherwise stated)

		Equity attributable to the shareholders of the Company					
	Notes	Share capital	Statutory reserve	Retained earnings	Total shareholders' equity	Non-controlling interest	Total equity
Balance at 1 January 2018 as restated in 2018		920,400,000	154,827,612	374,146,669	1,449,374,281	51,731,710	1,501,105,991
Net profit for the year		--	--	172,249,371	172,249,371	(7,683,217)	164,566,154
Other comprehensive income for the year		--	--	8,198,156	8,198,156	148,679	8,346,835
Total comprehensive income for the year		--	--	180,447,527	180,447,527	(7,534,538)	172,912,989
Statutory reserve	13	--	17,224,937	(17,224,937)	--	--	--
Transaction with owners of the Company							
Dividend	12	--	--	(184,080,000)	(184,080,000)	--	(184,080,000)
Advance towards share capital		--	--	--	--	800,000	800,000
		--	--	(184,080,000)	(184,080,000)	800,000	(183,280,000)
Balance at 31 December 2018		**920,400,000**	**172,052,549**	**353,289,259**	**1,445,741,808**	**44,997,172**	**1,490,738,980**
Balance at 1 January 2019		920,400,000	172,052,549	353,289,259	1,445,741,808	44,997,172	1,490,738,980
Net profit for the year		--	--	97,568,347	97,568,347	(7,460,843)	90,107,504
Other comprehensive loss for the year		--	--	(20,594,409)	(20,594,409)	(137,633)	(20,732,042)
Total comprehensive income for the year		--	--	76,973,938	76,973,938	(7,598,476)	69,375,462
Statutory reserve	13	--	9,756,835	(9,756,835)	--	--	--
Transaction with owners of the Company							
Advance towards share capital		--	--	--	--	1,700,000	1,700,000
Balance at 31 December 2019		**920,400,000**	**181,809,384**	**420,506,362**	**1,522,715,746**	**39,098,696**	**1,561,814,442**

Sobhi Abduljalil Batterjee
Chairman

Ahmed Mohamed Shebl
Chief Executive Officer

Madani Hozaien
Chief Financial Officer

The annexed notes 1 to 33 form an integral part of these consolidated financial statements.

MIDDLE EAST HEALTH CARE COMPANY LIMITED
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2019
(Expressed in Saudi Arabian Riyals unless otherwise stated)

	Notes	2019	2018
Cash flows from operating activities			
Net profit before Zakat		**95,282,975**	170,666,150
Adjustments for:			
Depreciation on property and equipment		**92,988,741**	88,153,170
Depreciation on right of use assets		**4,642,407**	--
Amortization	7	**779,903**	796,456
Reversal for allowance for expected credit losses	9	**(8,705,947)**	(9,033,564)
Provision for slow moving and obsolete inventories	8	**2,484,768**	1,403,062
Amortization of deferred income	18	**(3,484,468)**	(3,477,749)
Adjustment for present value of other financial liabilities	27	**--**	(6,256,228)
Finance charges related to lease obligations		**1,865,728**	
Provision for employees' end of service benefits	19	**34,512,730**	31,964,181
Intangibles written off	7	**--**	53,551
(Gain) / loss on disposal of property and equipment		**(216,238)**	15,126
		220,150,599	274,284,155
Changes in operating assets and liabilities:			
Accounts receivable		**(122,101,600)**	(85,556,971)
Inventories		**(10,305,952)**	(6,646,106)
Prepayments and other current assets		**(24,491,353)**	(2,988,045)
Accounts payable		**66,701,614**	(3,531,245)
Accrued expenses and other current liabilities		**16,060,170**	15,600,479
Other financial liabilities		**(18,729,382)**	1,068,788
Cash generated from operating activities		**127,284,096**	192,231,055
Employees' end of service benefits paid	19	**(22,018,392)**	(27,426,700)
Zakat paid	22	**(6,627,390)**	(5,465,234)
Net cash generated from operating activities		**98,638,314**	159,339,121
Cash flows from investing activities:			
Additions to property and equipment	6	**(471,315,315)**	(356,675,213)
Additions to intangible assets	7	**(786,308)**	(32,624)
Proceeds from disposal of property and equipment		**3,251,800**	1,381,829
Net cash used in investing activities		**(468,849,823)**	(355,326,008)
Cash flows from financing activities:			
Dividend paid	12	**--**	(184,080,000)
Net movement in long-term loans and short-term borrowings		**383,824,598**	312,431,695
Lease obligations paid		**(5,648,952)**	--
Advance against proposed increase in share capital of the subsidiary from NCI shareholders		**1,700,000**	800,000
Net cash from financing activities		**379,875,646**	129,151,695
Net change in cash and cash equivalents		**9,664,137**	(66,835,192)
Cash and cash equivalents at beginning of the year	11	**44,218,703**	111,053,895
Cash and cash equivalents at the end of the year	11	**53,882,840**	44,218,703

Sobhi Abduljalil Batterjee	Ahmed Mohamed Shebl	Madani Hozaien
Chairman	Chief Executive Officer	Chief Financial Officer

The annexed notes 1 to 33 form an integral part of these consolidated financial statements.

1. GENERAL

Middle East Healthcare Company (the "Company") and its subsidiary (collectively the "Group") consist of the Company and its various branches and a subsidiary in the Kingdom of Saudi Arabia. The Company was a closed joint stock company operating under commercial registration number 4030149460 dated 6 Rabi Al Thani 1425H, corresponding to 25 May 2004.

On 19 Rabi Al-Awal 1437H, corresponding to 30 December 2015, the Company obtained approval from Capital Market 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 20 Jumada Al Thani 1437H, corresponding to 29 March 2016. Accordingly, the Company was converted to a Public Joint Stock Company.

The main activities of the Company are managing, operating and maintaining hospitals, medical centers, educational centers, rehabilitation centers, physiotherapy, laboratories and radiology centers, pharmacies, to buy land for the purpose of constructing medical projects and to establish, manage, construction and organize exhibitions for the Company.

The accompanying consolidated financial statements include assets, liabilities, the results of the operations and the cash flows of the following branches and a subsidiary.

Branch name	Commercial Registration No.	Issued on	Corresponding to
Saudi German Hospital - Jeddah	4030124187	5 Safar 1419H	30 May 1998
Saudi German Hospital – Riyadh	1010162269	24 Rajab 1421H	22 October 2000
Saudi German Hospital – Aseer	5855019364	28 Dhul Hijah 1420H	3 April 2000
Saudi German Hospital – Madinah	4650032396	18 Safar 1423H	5August 2002
Abdul Jaleel Ibrahim Baterjee Sons	4030181710	4 Shaban 1429H	6 August 2008
Saudi German Hospital – Dammam- Under development*	2050105713	18 Rajab 1436H	7 May 2015
Beverly Clinics – Jeddah	4030297688	26 Safar 1439H	15 November 2017
Saudi German Hospital – Makkah - Under development	4031215509	19 Shawwal 1439H	3 July 2018

*Subsequent to the year end, the management has formally inaugurated, Saudi German Hospital – Dammam on 2 Jumada Al Thani 1441H, corresponding to 26 February 2019 and the operations have been started.

The Company also has investment in the following subsidiary:

Subsidiary name	Commercial Registration No.	Issued on	Corresponding to
National Hail Company for Healthcare (NHC), a closed joint stock company	3350019735	2 Rajab 1428H	16 July 2007

Though, the Company hold 32.33% (2017: 32.33%) in NHC, however, as the control is exercised by the Company, NHC has been consolidated in these financial statements as a subsidiary.

2. BASIS OF PREPARATION

(a) Statement of compliance

The accompanying consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization of Certified Public Accountants (SOCPA).

This is the first set of the Group's financial statements in which IFRS 16 "Leases" have been applied and the resultant changes to the significant accounting policies are described in Note 3.

i) Basis of measurement

These consolidated financial statements have been prepared using accrual basis of accounting, going concern concept and under the historical cost basis except for defined benefit liability, which is measured at the fair value of plan assets less the present value of the defined benefit obligation, as explained in note 4 (i).

ii) Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyals (SR) which is the Group's functional currency.

(b) Critical accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgments

Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are detailed as follows:

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the consolidated financial statements are described below:

i) *Impairment of non-financial assets*

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units ("CGUs").

2. BASIS OF PREPARATION (continued)

(b) Critical accounting estimates and judgments (continued)

(i) Impairment of non-financial assets (continued)

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU. 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.

An impairment loss is recognised in profit or loss if the carrying amount of an asset or CGU exceeds its recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

ii) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour.

The Group assesses on a forward-looking basis, the expected credit losses ("ECL") associated with its financial assets carried at amortised cost. Credit losses are measured at the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Fund expects to receive). The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group measures loss allowances at an amount equal to lifetime ECL.

iii) Provision for inventory obsolescence

The Group determines its provision for inventory obsolescence based upon historical experience, expected inventory turnover, inventory aging, current condition, and future expectations with respect to its consumption. 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 the pattern of consumption and sale of pharmaceutical products.

2. BASIS OF PREPARATION (continued)

(b) Critical accounting estimates and judgments (continued)

iv) *Useful lives of property and equipment*
The management determines the estimated useful lives of property 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.

v) *Employee benefits – defined benefit obligation*
Certain actuarial assumptions have been adopted as disclosed in note 18 to these consolidated financial statements for valuation of present value of defined benefit obligations. Any changes in these assumptions in future years might affect gains and losses in those years.

vi) *Going concern*
The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

vii) *Control over Investee Company (National Hail Company for Healthcare)*
The Group holds 32.33% ownership interests in National Hail Company for Healthcare. However, based on the terms of agreement under which this entity operates, the Group has the ability to direct the entity's activities that most significantly affect the returns. Accordingly, the financial information of the investee company is consolidated in these financial statements.

viii) *Extension options for leases*
In case of lease contracts where extension options are also available to the Company, judgement is applied in evaluating whether it is reasonably certain to exercise the option. The Company reassesses whether it is reasonably certain to exercise the extension options, upon the occurrence of either a significant event or significant change in circumstances that are within the control of the Company.

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Group has initially adopted IFRS 16 Leases from 1 January 2019, the impact of which is explained in note 17. A number of other amendments are effective from 1 January 2019 but they do not have a material effect on the Group's consolidated financial statements.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies under IFRS 16
At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a lease liability at the commencement date of the lease (i.e., the date, the underlying asset is available for use). The right-of-use asset is initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of costs to dismantle, less any lease incentive received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

The lease liability is initially measured at the present value of the lease payments to be made over the lease term, discounted using the Group's incremental borrowing rate (if the interest rate implicit in the lease is not available). Lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. Any such re-measurement in the lease liability is adjusted against the carrying value of the right-of-use asset or charged to profit or loss if carrying value of the related asset is zero.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less, and leases of low-value assets. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

i) Business combinations

Business combinations (except for entities under common control) are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instrument issued and liabilities incurred or assumed at the date of exchange, and includes costs directly attributable to the acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition. The excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is classified as goodwill. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

i) Business combinations (continued)

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interests at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisitions from entity under common control

Business combinations including entities or businesses under common control are measured and accounted for using book value. The assets and liabilities acquired are recognized at the carrying amounts as transferred from the controlling company's books of accounts. The components of equity of the acquired entity are added to the same components within the Group equity and any gain/loss arising is recognized directly in equity.

ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to or has rights to, variable return from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiary are consolidated in the financial statements from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases

All intra-Group balances, transactions, income and expenses resulting from intra-Group transactions are eliminated in full. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interests (NCI) and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Changes in a Group's ownership interest in a subsidiary that does not result in a change in control, is accounted as equity transaction and the carrying amounts of the non-controlling interests is adjusted against the fair value of the consideration paid and any difference is recognized directly in equity under "Effect of transactions with non- controlling interests without change in control".

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

iii) Goodwill

Goodwill represents the difference between the cost of businesses acquired and the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill arising on acquisitions is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

iv) Non-controlling interests

Non-controlling interests represent the interest in subsidiary companies, not held by the Group which are measured at their proportionate share in the subsidiary's identifiable net assets. Transactions with non-controlling interest parties are treated as transactions with parties external to the Group.

Changes in Group's interest in a subsidiary as a result of transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, i.e. as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid / received and the relevant share acquired / disposed of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals / acquisition of non-controlling interests are also recorded in equity.

(b) Financial instruments

i) Non-derivative financial assets

The Group initially recognizes accounts receivable and deposits on the date that they are originated. All other non-derivative financial assets are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group has the following non-derivative financial assets: Accounts receivable and cash and cash equivalents.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

i) Non-derivative financial assets (continued)

Accounts receivable

Accounts receivable are initially recognized when they are originated. Accounts receivable without a significant financing component is initially measured at the transaction price. Accounts receivable is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL (Fair value through profit and loss):

- it is held with a business model whose objective is to held assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at banks in current accounts and other short-term highly liquid investments with original maturities of three month or less, if any, which are available to the Group without any restrictions. Overdraft is net off against cash and cash equivalents.

ii) Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

iii) Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost.

As required by IFRS 9, the Group applies the simplified approach for accounts receivable. The Group uses a provision matrix in the calculation of the expected credit losses on accounts receivables to estimate the lifetime expected credit losses, applying certain provision rates to respective aging buckets.

The Group applies the general approach for all loans given to its employees. The general approach requires Group to measure the loss allowance for an employee’s loan at an amount equal to the lifetime expected credit loss (ECL) if the credit risk on that loan has increased significantly since initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Segment reporting

An operating segment is a component:

i) engaged in business activities from which it may earn revenue and incur expenses including revenues and expenses that relate to transactions with any of the Group's other components;

ii) the results of its operations are continuously analysed by chief operating decision maker in order to make decisions related to resource allocation and performance assessment; and

iii) for which financial information is discretely available.

Segment results that are reported to the chief operating decision makers and include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(d) Property and equipment

Property and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss. Cost includes purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within other income in the consolidated statement or profit or loss and other comprehensive income.
The cost of replacing a part of an item of property 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 and equipment are recognized in profit or loss as incurred.
Depreciation represents the systematic allocation of the depreciable amount of an asset over its estimated useful life. Depreciable amount represents cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is charged to the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of individual items of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property and equipment (continued)

The estimated useful lives of assets is as follow:

	Years
Buildings	15-33
Leasehold improvements	Period of lease or 20 years whichever is less
Plant and equipment	4-15
Computer equipment	3-10
Motor vehicles	4-10
Furniture & fixtures	4-10
Office equipment	4-10

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted prospectively if required.

(e) Intangibles

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.

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.

Intangible assets are amortised over the estimated useful life of eight years.

(f) Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average method. Cost includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realizable value comprises estimated selling price in the ordinary course of business, less any additional production costs for completion and appropriate selling and distribution costs. Provision is made, where necessary, for obsolete, slow moving and defective stocks.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (the "cash-generating unit, or CGU"). Impairment exists when the carrying value of an asset or CGU exceeds the recoverable amount, which is the higher of the fair value less costs to sell and value in use. The value in use is based on a discounted cash flow (DCF) model, whereby the future expected cash flows discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

(h) Provisions

A provision is recognized if, as a result of past events, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit, will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Employees' benefits

Defined benefit plan
The Group's obligation under employees' end of service benefit plan is accounted for as an unfunded defined benefit plan and is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed by a qualified actuary using the projected unit credit method. Measurements of the defined benefit liability, which comprise actuarial gains and losses are recognized immediately in other comprehensive income (OCI). The Group determines the net interest expense on the defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then defined benefit liability, taking into account any changes in the defined benefit liability during the period as a result of benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in personnel expenses in consolidated statement of profit or loss.

Short-term employee benefits
Short-term employee benefits are expensed as the related services are provided. A liability is recognized for the amount expected to be paid under short-term cash bonus, 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.

(j) Revenues

The Company recognises revenue from contracts with customers based on a five-step model as set out in IFRS. Revenue is recognized when the entity satisfies performance obligation by transferring promised goods or service to a customer. Revenue is principally derived from services (operations) and sale of pharmaceutical items. The following five steps are followed:

Step 1. Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

Step 2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3. Determine the transaction price: the transaction price is the amount of consideration to which the Company expects to be entitled to in exchange for transferring promised goods or services to a customer. The transaction price is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment, excluding taxes, duties, amounts collected on behalf of others and is recorded net of trade discounts and volume rebates.

Step 4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Company will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation.

Step 5. Recognize revenue when (or as) the Company satisfies a performance obligation.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Revenues (continued)

The Company assessed its revenue arrangements against specific criteria and determined that it is acting as principal in all of its revenue arrangements.

The Group generates its revenue from sale of goods and operations (rendering of services). The goods are sold and services are rendered both on their own in separately identified contracts with customers and together as a bundled package of goods and/or services.

(i) *Operating revenues*

For operating revenues, the revenue is recognized when the treatment is provided and the invoice is generated (i.e. after satisfaction of performance obligation). Some contracts include variable considerations such as discount and rejections of claims. Management estimates variable consideration using the expected value method for rejections. Management has applied one method consistently throughout the contract when estimating the effect of an uncertainty on an amount of variable consideration to which the Company will be entitled. In addition, management has considered all the information (historical, current and forecast) that is reasonably available to the Company and has identified a reasonable number of possible consideration amounts.

(ii) *Sale of goods*

The Group's contracts with customers for the sale of medicines and drugs generally include one performance obligation. The Group has concluded that revenue from sale of medicines and drugs should be recognised at point in time when control of the asset is transferred to the customer, generally on delivery of the medicines and drugs.

(iii) *Rental income*

Rental income is recognized on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

(iv) *Management fee:*

Management fee is recognized as and when the Group becomes entitled to it under the management agreement.

(v) *Commission income*

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission made by the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Zakat and taxes

The Group is subject to zakat in accordance with the regulations of General Authority of Zakat and Income Tax ("GAZT"). The Group's Zakat is charged to the consolidated statement of profit or loss and other comprehensive income. Additional Zakat liability, if any, related to prior years' assessments arising from GAZT are accounted for in the year in which the final assessments are finalized.

The Company and its subsidiary withhold taxes on transactions with non-resident parties and on dividends paid to foreign shareholders in accordance with GAZT regulations.

(l) Borrowings and finance cost

Borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortized cost, while the difference between the cost (reduced for periodic payments) and redemption value is recognized in the consolidated statement of profit and loss over the period of the borrowings using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the relevant asset. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in consolidated statement of profit or loss and other comprehensive income using the effective interest method.

Finance income is recognized as it accrues in consolidated statement of profit or loss using the effective interest method.

(m) Dividends

Final dividends are recorded in the financial statements in the year in which they are approved by shareholders of the Group. Interim dividends are recorded as liability in the year in which they are approved by the Board of Directors.

(n) Leases

Policy applicable before 1 January 2019
The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Leases that transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are classified as finance leases and capitalised 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 recognised in finance costs in the statement of profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Leases (continued)

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

Policy applicable after 1 January 2019

The Company has adopted IFRS 16: Leases with effect from 1 January 2019.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments to be made over the lease term, discounted using the Group's incremental borrowing rate (if the interest rate implicit in the lease is not available). Lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. Any such re-measurement in the lease liability is adjusted against the carrying value of the right-of-use asset or charged to profit or loss if carrying value of the related asset is zero.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Leases (continued)

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

(o) Financial liabilities

Financial liabilities are initially recognised on trade date i.e. date on which the Group becomes party to the respective contractual provisions. Financial liabilities include mark-up bearing borrowings and trade and other payables. The Group derecognises the financial liabilities when contractual obligations are discharged or cancelled or expired. Financial liability other than at fair value through profit or loss are initially measured at fair value less any directly attributable transaction cost.

Subsequent to initial recognition, these liabilities are measured at amortised cost using effective interest rate method.

(p) Trade and other payables

Trade and other payables are recognised initially at fair value plus directly attributable costs, if any, and subsequently measured at amortised costs.

(q) Foreign currencies

Transactions in foreign currencies are initially recorded by the Group in its functional currency using the spot rate at the date of the transaction it first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated in the functional currency using the spot rate of exchange ruling at the reporting date. Differences arising on settlement or translation of monetary items are recognized in statement of 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.

(r) Contingencies

All possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly with the control of the Group; or all present obligations arising from past events but not recognized because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability; all should be assessed at each statement of financial position date and disclosed in the Group’s financial statements under contingent liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) 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 Group receives non-monetary grants, the asset and the grant are recorded at nominal amounts and released to the statement of profit or loss over the expected pattern of consumption of the benefit which is the tenure of the loan. 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.

5. OPERATING SEGMENTS

As the operations of the Group are conducted in the Kingdom of Saudi Arabia, accordingly, for management purposes, the Group is organized into business units based on its products and services and has three reportable segments. Information regarding the Company's reportable segments is presented below:

Based on nature of services

			31 December 2019		
	In patient services	**Outpatient services**	**Pharmacy sales**	**Others**	**Total**
Revenue	**812,268,246**	**399,510,730**	**270,859,389**	**14,008,548**	**1,496,646,913**
Cost of revenue	**(539,515,214)**	**(289,442,935)**	**(191,016,666)**	**(3,741,028)**	**(1,023,715,843)**
Gross profit	**272,753,032**	**110,067,795**	**79,842,723**	**10,267,520**	**472,931,070**
Operating expenses					**(369,663,616)**
Operating profit					**103,267,454**
Other income					**17,127,910**
Finance charges					**(25,112,389)**
Zakat					**(5,175,471)**
Net profit					**90,107,504**

			31 December 2018		
	In patient services	Outpatient services	Pharmacy sales	Others	Total
Revenue	734,450,150	385,366,621	260,141,833	10,731,789	1,390,690,393
Cost of revenue	(446,856,762)	(257,584,074)	(184,744,499)	(757,898)	(889,943,233)
Gross profit	287,593,388	127,782,547	75,397,334	9,973,891	500,747,160
Operating expenses					(338,016,032)
Operating profit					162,731,128
Other income					19,040,254
Finance charges					(11,105,232)
Zakat					(6,099,996)
Net profit					164,566,154

6. PROPERTY AND EQUIPMENT

6.1 Operating fixed assets

	Land	Buildings	Medical equipment	Motor vehicles	Furniture and equipment	Non-consumable items	Capital work in progress	Total
Cost								
Balance at 1 January 2018	183,944,120	960,650,130	681,663,738	9,726,040	218,808,218	3,630,222	156,965,200	2,215,387,668
Additions during the year	--	5,114,295	68,152,127	1,364,917	9,008,355	615,996	272,419,523	356,675,213
Disposals during the year	--	--	(21,905,967)	(186,464)	(11,218,119)	(1,188,463)	--	(34,499,013)
Transfers from CWIP	--	35,088,338	10,113,950	--	1,361,514	--	(46,563,802)	--
Balance at 31 December 2018	**183,944,120**	**1,000,852,763**	**738,023,848**	**10,904,493**	**217,959,968**	**3,057,755**	**382,820,921**	**2,537,563,868**
Balance at 1 January 2019	183,944,120	1,000,852,763	738,023,848	10,904,493	217,959,968	3,057,755	382,820,921	2,537,563,868
Additions during the year	--	288,255	36,207,289	1,414,943	10,377,286	1,713,374	421,314,168	471,315,315
Disposals during the year	--	(52,976)	(29,580,966)	--	(9,041,343)	(967,764)	(1,160,463)	(40,803,512)
Transfers from CWIP	--	56,856,141	3,210,573	--	1,569,130	--	(61,635,844)	--
Balance at 31 December 2019	**183,944,120**	**1,057,944,183**	**747,860,744**	**12,319,436**	**220,865,041**	**3,803,365**	**741,338,782**	**2,968,075,671**

6. PROPERTY AND EQUIPMENT (continued)

	Land	Buildings	Medical equipment	Motor vehicles	Furniture and equipment	Non-consumable items	Capital work in progress	Total
Accumulated Depreciation								
Balance at 1 January 2018	--	366,761,059	443,507,401	6,075,268	129,180,393	2,836,407	--	948,360,528
Charge during the year	--	29,762,045	44,722,993	741,035	12,195,934	731,163	--	88,153,170
Accumulated depreciation related to assets disposed during the year	--	--	(21,678,630)	(140,293)	(10,177,461)	(1,105,674)	--	(33,102,058)
Balance at 31 December, 2018	**--**	**396,523,104**	**466,551,764**	**6,676,010**	**131,198,866**	**2,461,896**	**--**	**1,003,411,640**
Balance at 1 January 2019	--	396,523,104	466,551,764	6,676,010	131,198,866	2,461,896	--	1,003,411,640
Charge during the year	--	27,798,786	50,569,788	809,377	12,651,539	1,159,251	--	92,988,741
Accumulated depreciation related to assets disposed during the year	--	--	(28,950,559)	(548)	(7,935,901)	(880,942)	--	(37,767,950)
Balance at 31 December 2019	**--**	**424,321,890**	**488,170,993**	**7,484,839**	**135,914,504**	**2,740,205**		**1,058,632,431**
Net Carrying Value as at 31 December 2019	**183,944,120**	**633,622,293**	**259,689,751**	**4,834,597**	**84,950,537**	**1,063,160**	**741,338,782**	**1,909,443,240**
Net Carrying Value as at 31 December 2018	183,944,120	604,329,659	271,472,084	4,228,483	86,761,102	595,859	382,820,921	1,534,152,228

6. PROPERTY AND EQUIPMENT (continued)

6.2. Capital Work in progress

a) CWIP mainly contains the construction of new hospitals in Dammam and Makkah and expansion and renovations of hospitals' buildings at different locations.

b) During the year, borrowing cost amounting to SR 22.63 million (31 December 2018: SR 13.78 million) have been capitalized in CWIP.

c) The land and building having a net book value of SR 210 million (31 December 2018: SR 338.72 million) are mortgaged to secure loan from Ministry of Finance (Note 15)

d) The depreciation for the year has been allocated as follows:

	2019	2018
Cost of sales (Note 23)	**81,048,973**	76,668,368
General and administrative expenses (Note 25)	**11,939,768**	11,484,802
Total	**92,988,741**	88,153,170

7. INTANGIBLE ASSETS

	31 December 2019	31 December 2018
Cost		
Balance as at	**14,682,380**	19,024,911
Additions during the year	**786,308**	32,624
Written off during the year	**(326,300)**	(4,375,155)
Balance as at	**15,142,388**	14,682,380
Amortization		
Balance as at	**9,747,808**	13,272,956
Charge during the year (Note 25)	**779,903**	796,456
Written off during the year	**(326,300)**	(4,321,604)
Balance as at	**10,201,411**	9,747,808
Net carrying value	**4,940,977**	4,934,572

8. INVENTORIES

	31 December 2019	31 December 2018
Pharmacy items	**37,492,048**	43,038,464
Kitchen items	**589,239**	635,612
Consumables and others	**100,510,342**	84,826,675
	138,591,629	128,500,751
Less: provision for inventory obsolete inventories	**(14,077,627)**	(11,807,933)
	124,514,002	116,692,818

8.1 Movement of provision for slow moving and obsolete inventories:

	2019	2018
Balance at January 1	**11,807,933**	10,727,396
Recognized during the year	**2,484,768**	1,403,062
Adjustment during the year	**(215,074)**	(322,525)
Balance at 31 December	**14,077,627**	11,807,933

9. ACCOUNTS RECEIVABLES

	31 December 2019	31 December 2018
Accounts receivable	**1,255,829,839**	1,162,445,447
Less: Allowance for expected credit losses	**(165,135,773)**	(189,670,489)
	1,090,694,066	972,774,958
Related parties (note 29)	**17,882,326**	4,993,887
	1,108,576,392	977,768,845

9.1 Following is the movement of allowance for expected credit losses:

	2019	2018
Balance at January 1	**189,670,489**	254,865,488
Written off during the year	**(15,828,769)**	(56,161,435)
Reversal during the year	**(8,705,947)**	(9,033,564)
Balance at 31 December	**165,135,773**	189,670,489

9.1 Information about the Group’s exposure to credit and market risks and impairment losses for accounts receivable is included in Note 31.

10. PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December 2019	31 December 2018
Advances to suppliers	**18,183,703**	10,995,373
Prepayments	**20,863,207**	15,516,326
Advances to staff	**2,480,487**	1,455,212
Deposits	**942,983**	788,174
Value added tax (VAT) refundable	**14,473,943**	5,866,591
Others	**16,741,036**	14,572,330
	73,685,359	49,194,006

11. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash balances	**1,991,022**	2,471,488
Bank balances – current accounts	**51,891,818**	41,747,215
	53,882,840	44,218,703

12. SHARE 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.

The shareholders approved a dividend of SR 2 per share amounting to SR 184.08 million for the year ended 31 December 2017 in the Annual General Meeting held on 24 June 2018.

13. STATUTORY RESERVE

In accordance with the Company's Bylaws and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company transfers 10% of the net income for the year to statutory reserve until such reserve equals 30% of its share capital. This reserve is not available for distribution to the shareholders of the Company.

14. NON-CONTROLLING INTERESTS

The following table summarises the information relating to the Group's subsidiary that has material Non-controlling interests (NCI), before any intra group eliminations:

	2019	2018
Non-current assets	**162,075,623**	169,970,591
Current assets	**44,447,057**	36,784,851
Non-current liabilities	**(66,774,687)**	(68,353,401)
Current liabilities	**(29,855,416)**	(70,346,125)
Net assets	**109,892,577**	68,055,916
Revenue	**83,842,657**	71,965,403
Loss for the year	**(11,025,334)**	(11,353,948)
Other comprehensive income	**(203,389)**	219,712
Total comprehensive loss	**(11,228,723)**	(11,134,236)

15. TERM LOANS

Term loans comprise of the following:

	31 December 2019	31 December 2018
Loan from commercial banks	**948,346,144**	556,869,165
Loan from Ministry of Finance	**68,873,182**	78,196,625
Adjustment for deferred income	**(17,060,990)**	(18,732,048)
Loan from Ministry of Finance – net	**51,812,192**	59,464,577
Total	**1,000,158,336**	616,333,742

15. TERM LOANS (continued)

	31 December 2019	31 December 2018
Current portion:		
Loan from commercial banks	**90,301,326**	--
Short-term borrowings	**259,801,000**	279,000,000
Loan from Ministry of Finance	**6,607,500**	7,652,385
Total current portion	**356,709,826**	286,652,385
Non-current portion:		
Loan from commercial banks	**598,243,818**	277,869,165
Loan from Ministry of Finance	**45,204,692**	51,812,192
Total non-current portion of long-term loans	**643,448,510**	329,681,357
Total	**1,000,158,336**	616,333,742

The loan from the banks are secured through issue of promissory notes from the Company. The interest free loan from the Ministry of Finance (MOF) 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.

The followings are the loans obtained from the MOF:

a) Interest free loan for SGH - Madinah Hospital; this loan transferred from Bait Al Batterjee Medical Company (a related party) to the Company amounted to SR 49,938,182 to be repaid in sixteen equal annual installments at SR 3,125,000 starting from 21 Dhul Hijja 1427H corresponding to 21 January 2007. The net amount payable is SR 6,188,182 (2018: SR 9,313,182).

b) Interest free loan for SGH-Riyadh Hospital; this loan transferred from Bait Al Batterjee and Zoheir Ahmed Al Sibae (a related party) to the Company amounted to SR 18,750,000. The total amount obtained was SR 50,000,000 to be repaid in sixteen equal installments of SR 3,125,000 each started from 15 Safar 1426H corresponding to 26 March 2005. The net amount payable is SR Nil (2018: SR 3,125,000).

c) Interest free loan to support construction of Hospital - National Hail Company for Healthcare (the Subsidiary Company); the total disbursable amount in this respect is SR 69,650,000 which has been received based on construction progress to the satisfaction of the MOF. The loan will be repaid in 20 equal annual installments which started in the year 2018. The Subsidiary Company's land, building and equipment are mortgaged to the MOF. The net amount payable is SR 62,685,000 (2018: SR 66,167,500).

15. TERM LOANS (continued)

d) The Group has secured a term facility- Islamic Financing Murabaha- from a commercial bank for part funding the construction of hospital project at Dammam and Makkah, amounting to SR 500,000,000. The loan will be draw down over a period of three years started from 27 December 2017 and the first repayment in June 2020 and last payment in December 2026. This loan is secured by promissory note from the Company. As at 31 December, the net amount payable is SR 341,182,961 (2018: SR 220,086,349).

e) On 2 March 2017, the Group secured revolving Tayseer facility from a commercial bank for an amount of SR 100,000,000. The net amount payable is SR 99,000,000. (2018: SR 99,000,000).

f) On 17 December 2018, the Company signed an amended Islamic financing agreement with a commercial bank for increasing the revolving working capital facility from SR 35 million to SR 150 million. An additional loan amount of SR 115,000,000 drawn down on 23 December 2018. The net amount payable as on 31 December 2019 SR 150,000,000 (2018: SR 150,000,000).

g) A loan amount of SR 30,000,000 received on 22 October 2018 from a commercial bank against the revolving finance facility. The net amount as on 31 December 2019 SR 45,000,000 (2018: SR 30,000,000).

h) On 26 July 2018, the Company signed an Islamic Financing Murabaha from a commercial bank amounting to SR 500,000,000 million for part funding the construction of hospital project at Makkah, expansion project and medical tower project at SGH Riyadh. The loan will be draw down over a period of three years started from 26 July 2018 and the first repayment in September 2021 and last payment in March 2028. This loan is secured by promissory note from the Company. The net amount payable is SR 195,719,000 (2018: SR 57,782,816).

i) A loan amount of SR 200,000,000 was approved during the year from a commercial bank against the finance facility. The net amount as on 31 December 2019 was SR 100,000,000 (2018: SR Nil).

j) A loan amount of SR 150,000,000 was approved during the year from a commercial bank against the finance facility. The net amount as on 31 December 2019 was SR 17,772,000 (2018: SR Nil).

k) The loan agreements include covenants which, amongst other things, require certain financial ratios to be maintained.

16. OTHER NON-CURRENT FINANCIAL LIABILITIES

It represents financial liabilities which are payable within one year or more. The breakup of current portion and non-current portion is as follows:

	31 December 2019	31 December 2018
Current portion	**11,256,031**	21,968,754
Non-current portion	**24,618,490**	32,635,149
	35,874,521	54,603,903

17. IMPACT OF ADOPTION OF IFRS 16 'LEASES'

The Group adopted IFRS 16 'Leases' which supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

The Group adopted IFRS 16 using the modified retrospective approach with the date of initial application of 1 January 2019 and therefore comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. Under this method, the lease liability is measured based on the remaining lease payments discounted using the incremental borrowing rate as of the date of initial application; and the carrying amount of the right-of-use asset is an amount equal to the carrying amount of the lease liability on the date of initial application. Any prepayments, accruals or lease incentives relating to previous operating lease are adjusted against the right of use asset at the initial application date.

The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'). In addition, the company has also used practical expedients to apply a single discount rate to a portfolio of leases with similar characteristics and excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

Reconciliation of lease liability

At the date of initial application, the Group recognised additional right-of-use asset and lease liability of SAR 32,747,996. The weighted average rate applied is 5.50%. The following table represent the lease reconciliation as at 1 January 2019.

Minimum lease payments	54,938,677
Recognition exemptions:	
Short-term leases	(7,830,847)
Leases of low value assets	--
Effect of discounting using the incremental borrowing rate	(14,359,834)
Liabilities additionally recognised based on application of IFRS 16	**32,747,996**
Liabilities for leased assets acquired under finance lease	--
Total lease liabilities as at 1 January 2019	**32,747,996**
Interest expense	1,865,728
Addition in liability	2,348,654
Payments made during the year	(5,648,952)
Total lease liabilities as at 31 December 2019	**31,313,426**

17. IMPACT OF ADOPTION OF IFRS 16 'LEASES' (continued)

The maturity analysis of the lease liabilities is as follows:

	31 December 2019	31 December 2018
Current portion	**4,180,880**	--
Non-current portion	**27,132,546**	--
	31,313,426	--

Impact on comprehensive income

During the year ended 31 December 2019, due to the adoption of IFRS 16 – "Leases", the Group's operating profit has declined by SAR 834,729, by way of decrease in operating lease rentals by SAR 5,373,952 and increase in depreciation expense by SAR 4,407,541, whereas interest expense has increased by SAR 1,801,140.

Reconciliation of right-of-use assets

Asset recognized at initial application	32,747,996
Additions during the period	2,348,654
Depreciation for the period	(4,642,407)
Net carrying value of right-of-use assets as at 31 December 2019	**30,454,243**

18. DEFERRED INCOME

The movement in government grants are as follows:

	2019	2018
Balance at January 1	**18,732,048**	22,209,797
Transferred to the income statement	**(3,484,468)**	(3,477,749)
Balance at 31 December	**15,247,580**	18,732,048

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

19. EMPLOYEES' END OF SERVICE BENEFITS

The Company has a post-employment defined benefit plan. The benefits are required by Saudi Labor Law. The benefit is based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

19. EMPLOYEES' END OF SERVICE BENEFITS (continued)

The following table summarizes the components of the net benefit expense recognized in the statement of profit or loss and amounts recognized in the statement of financial position.

Net benefit expense recognised in statement of profit or loss

	31 December 2019	31 December 2018
Net benefit expense	**34,512,730**	31,964,181

Movement in the present value of defined benefit obligation recognized in statement of financial position

	31 December 2019	31 December 2018
Defined benefit obligation at 1 January	**179,406,566**	183,215,920
Current service cost	**34,512,730**	31,964,181
Interest cost		
Actuarial loss / (gain) on the obligation recognized in the other comprehensive income (OCI)	**20,732,042**	(8,346,835)
Benefits paid	**(22,018,392)**	(27,426,700)
	212,632,946	179,406,566

Significant assumptions used in determining the post-employment defined benefit obligation includes the following:

	31 December 2019	31 December 2018
Discount rate	**2.93%**	3.89%
Future salary increases or rate	**3.00%**	3.00%
Mortality rates	CPM 199	CPM 1999
Rates of employee turnover	**5.00%**	5.00%

A quantitative sensitivity analysis for discount rate assumption on the defined benefit obligation as at 31 December 2019 and 2018 is shown below:

Assumptions	**Discount rate**	
	31 December 2019	31 December 2018
Sensitivity level	**-1%**	-1%
Defined benefit obligation as at 31 December 2019	**233,906,585**	
Defined benefit obligation as at 31 December 2018		205,140,683

The sensitivity analyses have been determined based on a method that extrapolates the impact on the end of service benefit as a result of changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the end of service benefit as it is unlikely that changes in assumptions would occur in isolation of one another.

20. ACCOUNTS PAYABLE

It comprises of the following

	31 December 2019	31 December 2018
Third party suppliers	**184,715,432**	179,119,997
Related parties – (Note 29)	**152,340,710**	91,234,531
	337,056,142	270,354,528

21. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	31 December 2019	31 December 2018
Accrued expenses	**75,643,812**	60,344,074
Value added tax (VAT) payable	**17,369,286**	8,534,682
Other liabilities	**13,738,485**	21,812,653
	106,751,583	90,691,409

22. ZAKAT PAYABLE

The Company and its subsidiary files the zakat returns on an individual basis. The movements in accrued Zakat for the Group for the years are as follows:

	31 December 2019	31 December 2018
Balance at 1 January	**6,099,996**	5,465,234
Provision made during the year	**5,175,471**	6,099,996
Payments during the year	**(6,627,390)**	(5,465,234)
Balance at 31 December	**4,648,077**	6,099,996

Zakat status

Middle East Health Care Company:

The Company finalized its Zakat status up to the year 2008.

The Company filed the Zakat/tax returns for the years ended 31 December 2009 to 2018 and obtained unrestricted Zakat / tax certificates. The GAZT did not issue the final Zakat and tax assessment for these years to date.

The GAZT issued the preliminary assessment for the year 2014, under which an additional amount of SR 4.7 million is claimed. The Company has submitted a bank guarantee against the said Zakat difference and filed an appeal against such treatment.

22. ZAKAT PAYABLE (continued)

Zakat status of the Subsidiary Company ("National Hail Company for Health Care" or "NHC", the subsidiary)

NHC has finalized its Zakat assessment up to the year ended 31 December 2012. NHC filed the Zakat return for the year ended 31 December 2013 and obtained the unrestricted Zakat and tax certificate for the said year. The GAZT issued the Zakat assessment for the said year, which showed Zakat differences of SR 0.059 million due from NHC. NHC filed an objection against the said assessment, which is still under review by the GAZT.

The Subsidiary Company filed the Zakat/tax returns for the years ended 31 December 2014 to 2018, and obtained the unrestricted Zakat\ tax certificate for the year 2018. The GAZT did not issue the Zakat and tax assessment for the said years.

23. CONTINGENCIES AND COMMITMENTS

The Group has following contingencies and commitments as of 31 December 2019.

23.1 Various employees have filed cases against for various claims. These claims include unlawful dismissal, dismissal without notice and other compensation as per the contractual arrangements. The total claims amount to SR 3.06 (2018: SR 0.28 million). Most of the cases are under hearing in various labour courts. The management is confident that the outcome will be in the favour of the Group and no provision is required in this regard

23.2 The Company and its Subsidiary is also contesting various cases on account of alleged non-compliance of regulations. The total amount under consideration is SR 0.6 million (2018: SR 1.1 million). Most of the cases are under hearing. The management is confident that the outcome will be in favour of the Group and no provision is required in this regard.

23.3 Capital commitments as of 31 December 2019 amounted to SR 783.83 million (2018: SR 854 million)

23.4 The spread of novel coronavirus (COVID-19) across multiple geographies was confirmed in early 2020, causing disruptions to businesses and economic activities. The Group considers this outbreak to be a non-adjusting post balance sheet event. At this early stage, the Group is in the process of assessing any potential impact. The management and those charged with governance will continue to monitor the situation and accordingly update all stakeholders as soon as more information is available. Changes in circumstances may require enhanced disclosures or recognition of adjustments in the condensed interim consolidated financial statements of the Group of the subsequent periods in the financial year 2020.

24. COST OF REVENUES

	2019	2018
Staff salaries and benefits	**519,578,912**	443,607,796
Medicines and disposal supplies	**343,698,262**	299,976,959
Depreciation (Note 6)	**81,048,973**	76,668,368
Depreciation on right of use assets	**893,125**	--
Janitorial expenses	**21,323,138**	19,425,722
Maintenance	**14,326,506**	12,939,629
Utilities	**20,799,357**	18,299,790
Travelling	**2,035,007**	2,326,826
Insurance	**485,941**	760,479
Stationary	**4,388,421**	4,387,715
Other expenses	**15,138,201**	11,549,949
	1,023,715,843	889,943,233

25. SELLING AND MARKETING EXPENSES

	2019	2018
Advertisement and marketing	**11,282,217**	7,922,666
Sales promotion expenses	**3,494,840**	2,250,719
	14,777,057	10,173,385

26. GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
Staff salaries and benefits	**238,366,248**	202,154,896
Travelling expenses	**11,852,117**	12,583,402
Staff health insurance expenses	**20,141,917**	20,392,552
Audit and consultancy fees	**16,801,380**	18,774,537
Staff accommodation related expenses	**11,802,484**	18,069,474
Depreciation (Note 6)	**11,939,768**	11,484,802
Depreciation on right of use assets	**3,749,282**	--
Amortization (Note 7)	**779,903**	796,456
Repair and maintenance	**10,106,906**	12,226,707
Security	**9,035,908**	8,425,114
Director's remuneration (Note 29)	**2,101,437**	2,144,303
Postage, telephone and internet	**5,129,076**	4,974,338
Bank charges	**1,925,769**	1,599,301
Insurance	**1,147,398**	1,013,939
Other expenses	**10,006,966**	13,202,826
	354,886,559	327,842,647

27. OTHER INCOME, NET

	2019	2018
Rental income	**3,573,806**	2,623,680
Gain / (loss) on sale of property and equipment	**216,238**	(15,126)
Adjustment for present value of financial liabilities	**--**	6,256,228
Training and symposium	**4,338,371**	3,778,828
Others	**8,999,495**	6,396,644
	17,127,910	19,040,254

28. FINANCE COST, NET

	2019	2018
Finance cost on bank borrowings	**20,022,545**	10,267,635
Others	**5,089,844**	837,597
	25,112,389	11,105,232

29. EARNINGS PER SHARE

Basic and diluted earnings per share for the year ended 31 December 2019 and 31 December 2018, have been computed by dividing the net profit attributable to shareholders of the Parent Company for such year by the weighted average number of shares outstanding during such year.

	2019	2018
Net profit for the year attributable to shareholders of the Company	**97,568,347**	172,249,371
Weighted average number of ordinary shares	**92,040,000**	92,040,000
Earnings per share (Saudi Riyals)	**1.06**	1.87

30. RELATED PARTIES

Related parties include the Group's shareholders, associates and affiliated companies, other entities related to certain consolidated subsidiaries and key management personnel of the Group. Terms and conditions of these transactions are approved by the Group's management.

All outstanding balances with these related parties are priced on mutually agreed terms and are to be settled in cash.

Significant related party transactions for the period and balance arising there from are described as under:

30. RELATED PARTIES (continued)

Transactions with key management personnel

Key management personnel compensation

Compensation to Group's key management personnel includes salaries, non-cash benefits, and contributions to post-employment defined benefit plan. The following table illustrates details of remuneration and compensation paid to Board of Directors and Key Management Personnel:

	2019	2018
Board of Directors	**2,101,437**	2,144,303
Key Management Personnel	**4,074,782**	3,874,802
	6,176,219	6,019,105

Transaction with	**Relationship**	**Nature of transaction**	**Transaction during the period**		**Closing balance**	
			31 December 2019	31 December 2018	**31 December 2019**	31 December 2018
Due from related parties						
Bait Al Batterjee Company for Education and Training	Affiliate	Training	**607,076**	--	**607,076**	--
Emirate Healthcare Development Company	Affiliate	Management fee	**10,514,148**	8,056,643	**2,643,212**	2,044,055
Egypt Healthcare Company Limited	Affiliate	Management fee	**1,435,884**	--	**1,379,981**	
Bait Al Batterjee Medical College	Affiliate	Training fee	**4,071,019**	--	**3,971,995**	--
Al Bait International	Affiliate	Medical services	**--**	2,365,856	**3,225,295**	2,365,856
Bait Al Batterjee Medical Company	Share holder	Advisory fee	**--**	--	**--**	174,784
Saudi German Hospital Sharjah	Affiliate	Medical Services	**897,965**	--	**897,965**	--
Saudi German Hospital Sana'a	Affiliate	Medical Services	**895,675**	--	**895,675**	--
Saudi German Hospital Ajman	Affiliate	Medical Services	**3,808,776**	--	**3,808,776**	--
Gold Gym's	Affiliate	Medical services	**104,071**	409,192	**452,351**	409,192
					17,882,326	4,993,887

30. RELATED PARTIES (continued)

Transaction with	Relationship	Nature of transaction	Transaction during the period 31 December 2019	Transaction during the period 31 December 2018	Closing balance 31 December 2019	Closing balance 31 December 2018
Due to related parties						
Bait Al Batterjee Pharmaceutical Company	Affiliate	Medicine supply	**18,279,330**	19,937,387	**4,566,292**	1,137,691
Abdul Jalil Khalid Batterjee Medical Instrumentation Maintenance Co.	Affiliate	Instrument repair	**2,935,269**	4,452,030	**1,022,195**	2,234,625
Bait Al Batterjee Medical Education & Trainning Co.	Affiliate	Training fee	**--**	176,646	**--**	79,444
International Hospital Construction Company	Affiliate	Construction and renovation	**383,795,016**	248,507,545	**143,456,971**	87,460,757
Bait Al Batterjee Medical co.	Share holder	Advisory fee	**6,615,939**	6,000,852	**3,295,252**	--
Gulf Youth Company For Investment & Real Estate Dev (JAN PRO)	Affiliate	Janitorial	**11,503,260**	12,195,943	**--**	322,014
					152,340,710	91,234,531

31. FINANCIAL RISK MANAGEMENT

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

Risk management framework

Risk management is carried out by senior management under policies approved by the Board of Directors. Senior management identifies and evaluates financial risks in close cooperation with the Group’s operating units. The most important types of risk are market risk, credit risk and liquidity risk.

The Board of Directors has overall responsibility for establishment and oversight of the Group's risk management framework. The executive management team is responsible for developing and monitoring the Group’s risk management policies. The team regularly meets, and any changes and compliance issues are reported to the Board of Directors through the audit committee.

31. FINANCIAL RISK MANAGEMENT (continued)

Risk management framework (continued)

Risk management systems are reviewed regularly by the executive management team 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.

The audit committee oversees compliance by management 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.

Financial instruments carried on the consolidated statement of financial position include cash and cash equivalents, accounts receivables, other receivables, long-term loans, short-term loans & borrowings, accounts payable, accrued expenses and other financial liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial asset and liability is offset and net amount reported in the financial statements, when the Group has a legally enforceable right to set off the recognized amounts and intend either to settle on a net basis, or to realize the asset and liability simultaneously.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

Interest rate risk

Interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial positions and cash flows. The Group's interest rate risks arise mainly from its borrowings which are at floating rate of interest and are subject to re-pricing on a regular basis and for which the management closely monitors the changes in interest rates.

The interest rate profile of the Group's interest-bearing financial instruments as reported to the management of the Group is as follows:

	31 December 2019	31 December 2018
Fixed rate instruments		
Financial liabilities		
Borrowings	**--**	--
Variable rate instruments		
Financial liabilities		
Borrowings	**948,346,144**	556,869,165

31. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk (continued)

Sensitivity analysis for variable rate instruments

Change in 100 basis points in interest rates, with all other variables held constant, would have increased or decreased the equity and profit before Zakat for the year by SR 9.48 million (31 December 2018: SR 5.56 million).

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates for its transactions principally in Saudi Riyals, US Dollars and Euros. The Group is exposed to foreign exchange risk. The Group's other financial liabilities are exposed to currency translation risk. Currently, such exposures are mainly related to exchange rate movements between Saudi Riyals and Euros. Since Saudi Riyals is pegged with US Dollars, the Group is not exposed to currency risk for the transactions denominated in US Dollars.
The Group's management monitors such fluctuations and manages its effect on the consolidated financial statements accordingly.

As at 31 December 2019, the Group's other financial liabilities amount to Euros 216,208 (2018: Euros 427,706)

Significant exchange rates applied during the year were as follows:

	Average rate		**Spot rate**	
	For the year ended 31 December		**As at 31 December**	
	2019	2018	**2019**	2018
Foreign currency per Saudi Riyal				
Euros	**4.24**	4.43	**4.30**	4.30

Sensitivity analysis

Every 1% increase or decrease in exchange rate with all other variables held constant will decrease or increase profit before zakat and income tax for the year by SR 9,297 (31 December 2018: SR 18,391).

Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group is not exposed to any price risk.

31. FINANCIAL RISK MANAGEMENT (continued)

Currency risk (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The management also continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery which is based on customer profile and payments history. Outstanding customer receivables are regularly monitored.

The Group's maximum exposure to credit risk at the reporting date is as follows:

	31 December 2019	31 December 2018
Financial assets		
Accounts receivable	**1,273,712,165**	1,167,439,334
Staff advances	**2,480,487**	1,455,212
Deposits	**942,983**	788,174
Bank balance	**51,891,818**	41,747,215
Total	**1,329,027,453**	1,211,429,935

Trade and other receivables are carried net of provision for expected credit losses amounting to SR 165 million (2018: SR 190 million). At the reporting date, four major customers constitute 85% (31 December 2018: 85%) of total receivables. However, the Company assessed the concentration of risk with respect to accounts receivable and concluded it to be low.
The trade receivables aging are as follows:

As at 31 December 2019

Age days	**Accounts receivable**	**Provision for ECL**
Not yet due	82,124,941	200,448
1 -30	159,043,635	8,939,157
31 - 60	92,892,495	5,080,891
61 - 90	76,406,842	4,352,924
91 - 180	267,482,164	35,880,284
181 - 360	220,690,615	29,655,422
361+	357,189,147	81,026,647
Total	**1,255,829,839**	**165,135,773**

As at 31 December 2018

Age days	**Accounts receivable**	**Provision for ECL**
Not yet due	78,416,164	4,571,485
1 -30	151,653,076	7,325,453
31 - 60	79,923,232	4,380,356
61 - 90	88,518,716	5,160,441
91 - 180	209,090,974	37,078,025
181 - 360	271,126,144	48,078,699
361+	283,717,141	83,076,030
Total	**1,162,445,447**	**189,670,489**

31. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

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. For this purpose, the Group has maintained credit lines with various commercial banks in order to meet its liquidity requirements.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted and include contractual interest payments and exclude the impact of netting agreements.

		Contractual cash flows					
31 December 2019	**Carrying Amount**	**Less than 6 months**	**6 months to 1 year**	**1 year to 3 years**	**3 years to 5 years**	**More than 5 years**	**Total**
Non derivative financial liabilities							
Loans and borrowings	**1,000,158,336**	**332,156,255**	**24,553,572**	**300,438,778**	**373,375,596**	**246,496,126**	**1,277,020,327**
Accounts payable	**337,056,142**	**337,056,142**	**--**	**--**	**--**	**--**	**337,056,142**
Lease liabilities	**31,313,426**	**2,951,560**	**2,951,560**	**10,406,238**	**5,741,840**	**21,882,680**	**43,933,878**
Other financial liabilities	**35,874,521**	**5,591,328**	**5,415,778**	**15,509,241**	**12,208,910**	**--**	**38,725,257**
Accrued and other liabilities	**106,751,579**	**106,751,579**	**--**	**--**	**--**	**--**	**106,751,579**
	1,511,154,004	**784,506,864**	**32,920,910**	**326,354,257**	**391,326,346**	**268,378,806**	**1,803,487,183**

		Contractual cash flows					
31 December 2018	**Carrying Amount**	**Less than 6 months**	**6 months to 1 year**	**1 year to 3 years**	**3 years to 5 years**	**More than 5 years**	**Total**
Non derivative financial liabilities							
Loans and borrowings	616,333,742	285,250,000	6,607,500	80,162,375	86,356,525	180,223,747	638,600,147
Accounts payable	270,354,528	270,354,528	-	-	-	-	270,354,528
Other financial liabilities	54,603,903	11,651,931	10,316,823	25,336,035	11,722,329	1,833,013	60,860,131
Accrued and other liabilities	96,791,403	96,791,403	-	-	-	-	96,791,403
	1,038,083,576	664,047,862	16,924,323	105,498,410	98,078,854	182,056,760	1,066,606,209

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amount.

31. FINANCIAL RISK MANAGEMENT (continued)

Capital risk management

The Group's objective when managing capital is 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 businesses.

The Group manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or issue new shares. The Group also monitors capital using a gearing ratio, which is net debt, interest bearing loans and borrowings including finance cost thereon, trade and other payables, less cash and bank balances. Capital signifies equity as shown in the consolidated statement of financial position plus net debt. The gearing ratio as at 31 December 2019 and 31 December 2018 is as follows:

	31 December 2019	31 December 2018
Borrowings	**1,000,158,340**	616,333,742
Other financial liabilities	**35,874,521**	54,603,903
Lease liabilities	**31,313,426**	--
Accounts payables	**337,056,142**	270,354,528
Total debt	**1,404,402,429**	941,292,173
Cash and cash equivalents	**(53,882,840)**	(44,218,703)
Net debt	**1,350,519,589**	897,073,470
Share capital	**920,400,000**	920,400,000
Reserves	**181,809,384**	172,052,549
Retained earnings	**420,506,362**	353,289,259
Equity	**1,522,715,746**	1,445,741,808
Gearing Ratio (total debt / total shareholders’ equity)	**89%**	65%

31. FINANCIAL RISK MANAGEMENT (continued)

Fair value of assets and liabilities

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability falls into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

As the Group's financial instruments are compiled under the historical cost convention, except for inventory and firm commitments under fair value relationships which are carried at fair values, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Group’s financial assets and liabilities are not materially different from their carrying values.

32. NEW STANDARDS, AMENDMENTS TO STANDARDS AND STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards, interpretations and amendments issued, but not yet effective up to the date of issuance of the consolidated financial statements are disclosed below. The Group intends to adopt these standards, where applicable, when they become effective.

Standard / Interpretation	Description	Effective from periods beginning on or after the following date
Conceptual Framework	Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
IFRS 3	Definition of a Business (amendments to IFRS 3)	1 January 2020
IAS 1 and IAS 8	Definition of Material (amendments to IAS 1 and IAS 8)	1 January 2020
IFRS 10 and IAS 28	Sale or contribution of assets between investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	Available for optional adoption / effective date deferred indefinitely

The Company is currently assessing the implications of adopting the above-mentioned standards, amendments or interpretations on the Company's financial statements on adoption.

33. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue by the Company's Board of Directors on 17 Rajab 1441H, corresponding to 12 March 2020.