

MIDDLE EAST HEALTHCARE COMPANY (MEAHCO)
(A Saudi Joint Stock Company)

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS (UNAUDITED)**

For the three-month and nine-month periods ended 30 September 2019
together with the Independent Auditors' Review Report

MIDDLE EAST HEALTHCARE COMPANY (MEAHCO)
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
For the three-month and nine-month periods ended 30 September 2019

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Independent auditors' report on review of condensed consolidated interim financial statements

To the Shareholders of Middle East Healthcare Company

Introduction

We have reviewed the accompanying 30 September 2019 condensed consolidated interim financial statements of Middle East Healthcare Company ("MEAHCO") ("the Company") and its subsidiary ("the Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 September 2019;
- the condensed consolidated statement of profit or loss and other comprehensive income for the three-month and nine-month periods ended 30 September 2019;
- the condensed consolidated statement of changes in equity for the nine-month period ended 30 September 2019;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 2019; and
- the notes to the condensed consolidated interim financial statements.

Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2019 condensed consolidated interim financial statements of Middle East Healthcare Company and its subsidiary ("the Group") are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No. 382



Jeddah, 9 Rabi Al Awa1 1441H
Corresponding to 6 November 2019

KPMG Al Fozan & Partners Certified Public Accountants, a registered company in the Kingdom of Saudi Arabia, and a non-partner member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative, a Swiss entity.

MIDDLE EAST HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

(Expressed in Saudi Arabian Riyals)

	Notes	30 September 2019 (Unaudited)	31 December 2018 (Audited)
ASSETS			
Non-current assets			
Property and equipment	4	1,790,033,656	1,534,152,228
Right-of-use assets	12	29,635,154	--
Intangible assets	5	4,892,464	4,934,572
Total non-current assets		1,824,561,274	1,539,086,800
Current assets			
Inventories		116,458,463	116,692,818
Accounts receivable	6	1,070,040,235	977,768,845
Prepayments and other current assets		65,532,175	49,194,006
Cash and bank balances		49,460,182	44,218,703
Total current assets		1,301,491,055	1,187,874,372
Total assets		3,126,052,329	2,726,961,172
EQUITY AND LIABILITIES			
Share capital	7	920,400,000	920,400,000
Statutory reserve		172,052,549	172,052,549
Retained earnings		413,389,445	353,289,259
Equity attributable to shareholders of the Company		1,505,841,994	1,445,741,808
Non-controlling interest		38,770,854	44,997,172
Total equity		1,544,612,848	1,490,738,980
Non-current liabilities			
Term loans, non-current portion	8	505,708,252	329,681,357
Lease obligations – non-current portion	12	26,678,679	--
Other non-current financial liabilities		28,774,646	32,635,149
Deferred income		15,649,494	18,732,048
Employees' end of service benefits		192,048,745	179,406,566
Total non-current liabilities		768,859,816	560,455,120
Current liabilities			
Short-term borrowings and current portion of term loans	8	330,222,662	286,652,385
Current portion of other non-current financial liabilities		13,803,135	21,968,754
Lease obligations – current portion	12	3,704,566	--
Accounts payable	9	365,122,602	270,354,528
Accrued expenses and other current liabilities		95,424,493	90,691,409
Zakat payable	10	4,302,207	6,099,996
Total current liabilities		812,579,665	675,767,072
Total liabilities		1,581,439,481	1,236,222,192
Total equity and liabilities		3,126,052,329	2,726,961,172

Sobhi Abduljalil Batterjee
Chairman

Ahmed Mohamed Shebl
Chief Executive Officer

Madani Hozaien
Chief Financial Officer

The notes from 1 to 18 form an integral part of these condensed consolidated interim financial statements (unaudited)

MIDDLE EAST HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME (UNAUDITED)**

For the three-month and nine-month periods ended 30 September 2019

(Expressed in Saudi Arabian Riyals)

	Notes	For the three-month period ended		For the nine-month period ended	
		30 September 2019	30 September 2018	30 September 2019	30 September 2018
Revenue		386,755,973	338,773,991	1,090,132,611	1,080,010,281
Cost of revenue		(266,795,725)	(226,909,001)	(765,787,776)	(690,818,048)
Gross profit		119,960,248	111,864,990	324,344,835	389,192,233
Selling and marketing expenses		(4,096,409)	(1,957,281)	(9,736,743)	(7,188,439)
General and administrative expenses		(82,554,443)	(88,619,580)	(255,401,888)	(243,237,242)
Results from operating activities		33,309,396	21,288,129	59,206,204	138,766,552
Other income		3,894,708	1,801,630	13,061,899	7,684,343
Finance cost		(6,059,142)	(2,803,635)	(16,581,735)	(6,564,658)
Net profit before Zakat		31,144,962	20,286,124	55,686,368	139,886,237
Zakat	10	(1,500,000)	(1,524,997)	(3,512,500)	(4,574,997)
Net profit for the period		29,644,962	18,761,127	52,173,868	135,311,240
Other comprehensive income: <i>Items that will not be classified to profit or loss:</i>					
Re-measurement on actuarial gain / loss		--	--	--	--
Total comprehensive income for the period		29,644,962	18,761,127	52,173,868	135,311,240
Total comprehensive income for the period attributable to:					
Shareholders' of the Company		33,230,686	20,160,600	60,100,186	141,562,113
Non-controlling interest		(3,585,724)	(1,399,473)	(7,926,318)	(6,250,873)
		29,644,962	18,761,127	52,173,868	135,311,240
Basic and diluted earnings per share attributable to the shareholders of the Company	11	0.36	0.22	0.65	1.54


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MIDDLE EAST HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the nine-month period ended 30 September 2019

(Expressed in Saudi Arabian Riyals)

	Equity attributable to the shareholders of the Company				
	Share capital	Statutory reserve	Retained earnings	Total shareholders' equity	Non-controlling interest
Balance at 1 January 2018(audited)	920,400,000	154,827,612	629,012,157	1,704,239,769	51,731,710
Adjustment on adoption of IFRS-9	--	--	(254,865,488)	(254,865,488)	--
Balance at 1 January 2018 – adjusted	920,400,000	154,827,612	374,146,669	1,449,374,281	51,731,710
Total comprehensive income for the period	--	--	141,562,113	141,562,113	(6,250,873)
Dividend	--	--	(184,080,000)	(184,080,000)	--
Advance towards share capital	--	--	--	--	800,000
Balance at 30 September 2018 (unaudited)	920,400,000	154,827,612	331,628,782	1,406,856,394	46,280,837
Balance at 1 January 2019 (audited)	920,400,000	172,052,549	353,289,259	1,445,741,808	44,997,172
Total comprehensive income for the period	--	--	60,100,186	60,100,186	(7,926,318)
Advance towards share capital	--	--	--	--	1,700,000
Balance at 30 September 2019 (unaudited)	920,400,000	172,052,549	413,389,445	1,505,841,994	38,770,854
				1,544,612,848	


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MIDDLE EAST HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
For the nine-month period ended 30 September 2019
(Expressed in Saudi Arabian Riyals)

	Notes	30 September 2019	30 September 2018
Cash flows from operating activities			
Profit before Zakat		55,686,368	139,886,237
<u>Adjustments for:</u>			
Depreciation		69,473,554	64,679,189
Amortization of intangible assets		573,569	597,211
Amortization of right-of-use assets		3,112,842	--
Reversal for allowance for expected credit losses		(16,106,382)	(7,442,371)
Provision for slow moving and obsolete inventories		1,498,941	1,533,396
Amortization deferred income		(3,082,554)	315,202
Unwinding impact of other financial liabilities		3,475,135	--
Provision for employees' end of service benefits		25,713,864	24,763,713
		<u>140,345,337</u>	<u>224,332,577</u>
<u>Changes in operating assets and liabilities:</u>			
Accounts receivable		(76,165,008)	(184,796,837)
Inventories		(1,264,586)	10,861,146
Prepayments and other current assets		(16,338,169)	(24,394,642)
Accounts payable		94,768,074	92,770,736
Accrued expenses and other current liabilities		4,732,994	53,614,626
Other financial liabilities		(15,501,257)	(9,271,965)
		<u>130,577,385</u>	<u>163,115,641</u>
Cash generated from operating activities		<u>130,577,385</u>	<u>163,115,641</u>
Employees' end of service paid		(13,071,685)	(17,311,326)
Zakat paid		(5,310,199)	(5,534,775)
Net cash generated from operating activities		<u>112,195,501</u>	<u>140,269,540</u>
Cash flows from investing activities:			
Additions to property and equipment		(325,354,982)	(198,575,994)
Additions to intangibles		(531,461)	(10,764)
Net cash used in investing activities		<u>(325,886,443)</u>	<u>(198,586,758)</u>
Cash flows from financing activities:			
Term loans and borrowings, net		219,597,172	151,151,724
Lease obligations, net	12	(2,364,751)	--
Dividend paid	7	--	(184,080,000)
Advance against proposed increase in share capital of the subsidiary from NCI shareholders		1,700,000	800,000
Cash generated from / (used in) financing activities		<u>218,932,421</u>	<u>(32,128,276)</u>
Net change in cash and cash equivalents		<u>5,241,479</u>	<u>(90,445,494)</u>
Cash and cash equivalents at beginning of the period		<u>44,218,703</u>	<u>111,053,895</u>
Cash and cash equivalents at the end of the period		<u>49,460,182</u>	<u>20,608,401</u>

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The notes from 1 to 18 form an integral part of
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MIDDLE EAST HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

For the nine month period ended 30 September 2019
(Expressed in Saudi Arabian Riyals)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

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 condensed consolidated interim financial statements include assets, liabilities, the results of the operations and the cash flows of the following branches:

Branch name	Commercial registration	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	5 August 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

The Company has also investment in the following subsidiary:

Subsidiary name	Commercial registration	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% (2018: 32.33%) in NHC, however, as the control is exercised by the Company and accordingly, NHC has been consolidated in these condensed consolidated interim financial statements as a subsidiary.

MIDDLE EAST HEALTHCARE COMPANY
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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

For the nine month period ended 30 September 2019

(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION

2.1 Statement of compliance

The condensed consolidated interim financial statements of the Group have been prepared in accordance with International Accounting Standards (IAS)-34 "Interim Financial Reporting" as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization of Public Accountants ("SOCPA") and the requirements of the regulations for companies and the Company's by-laws in so far as they relate to the preparation and presentation of the financial statements.

The condensed consolidated interim financial statements do not include all the information required for complete set of IFRS Financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018 (last annual financial statements). Accounting policies and selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since last annual financial statements. In addition, results for the interim period ended 30 September 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019. Owing to application of IFRS 16 "Leases", the resultant changes to the significant accounting policies are described in Note 2.3 below.

i) Basis of measurement

These condensed consolidated interim financial statements have been prepared using accrual basis of accounting, going concern concept and under the historical cost basis, unless otherwise stated. Certain comparative amounts have been reclassified to conform to the current period's presentation.

ii) Functional and presentation currency

The condensed consolidated interim financial statements are presented in Saudi Arabian Riyal which is the Group's functional currency.

2.2 Basis of consolidation

These consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary, as explained in note 1.

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.

MIDDLE EAST HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

For the nine month period ended 30 September 2019
(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

2.2 Basis of consolidation (continued)

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".

2.3 Changes in significant accounting policies

Except as described below, the accounting policies applied in these condensed consolidated interim financial statement are the same as those applied in the last annual financial statements. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2019.

The Group has initially adopted IFRS 16 Leases from 1 January 2019, the impact of which is explained in note 12. A number of other amendments are effective from 1 January 2019 but they do not have a material effect on the Group's condensed consolidated interim 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.

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. The estimated useful life of right-of-use assets are determined on the same basis as those of property and equipment, except for leasehold land for which the estimated useful life is considered to be the lease term.

MIDDLE EAST HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

For the nine month period ended 30 September 2019
(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

2.3 Changes in significant accounting policies (continued)

Significant accounting policies under IFRS 16 (continued)

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.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed in note 12.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these condensed consolidated interim 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.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual consolidated financial statements except for the significant judgement and key sources of estimation uncertainty related to the application of IFRS 16 which is described in Note 12.

MIDDLE EAST HEALTHCARE COMPANY
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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

For the nine month period ended 30 September 2019
(Expressed in Saudi Arabian Riyals)

4. PROPERTY AND EQUIPMENT

	30 September 2019 (Unaudited)	31 December 2018 (Audited)
Operating assets	1,120,260,778	1,151,331,307
Capital work-in-progress (CWIP)	669,772,878	382,820,921
	<u>1,790,033,656</u>	<u>1,534,152,228</u>

- 4.1 CWIP mainly contains the construction of a new Hospital in Dammam, Makkah, and renovations of several hospitals buildings at different locations.
- 4.2 During the period finance charges amounting to SR 12.27 million (31 December 2018: SR 13.78 million) have been capitalized in CWIP.
- 4.3 The land and buildings having a net book value of SR 333.44 million (31 December 2018: SR 338.72 million) are mortgaged to secure loan from Ministry of Finance.

5. INTANGIBLE ASSETS

- 5.1 It mainly represents computer software acquired or internally developed by the Company.

6. ACCOUNTS RECEIVABLE

Accounts receivable comprise of the following

	<u>Note</u>	30 September 2019 (Unaudited)	31 December 2018 (Audited)
Third party customers		1,226,727,756	1,162,445,447
Related parties	14	8,170,639	4,993,887
		<u>1,234,898,395</u>	<u>1,167,439,334</u>
Expected credit losses		<u>(164,858,160)</u>	<u>(189,670,489)</u>
		<u>1,070,040,235</u>	<u>977,768,845</u>

7. 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 shareholder's approved a dividend of SR Nil for the year ended 31 December 2018 (SR 184.08 million for the year ended 31 December 2017).

MIDDLE EAST HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

For the nine month period ended 30 September 2019
(Expressed in Saudi Arabian Riyals)

8. TERM LOANS

Term loans comprise for the following:

	30 September <u>2019</u> (Unaudited)	31 December <u>2018</u> (Audited)
Loan from commercial banks	784,421,954	556,869,165
Loan from Ministry of Finance	68,873,182	78,605,682
Adjustment for deferred income	(17,364,222)	(19,141,105)
Loan from Ministry of Finance – net	51,508,960	59,464,577
	<u>835,930,914</u>	<u>616,333,742</u>
	30 September <u>2019</u> (Unaudited)	31 December <u>2018</u> (Audited)
Current portion:		
Short-term borrowings	325,428,571	279,000,000
Loan from Ministry of Finance	4,794,091	7,652,385
Total current portion	<u>330,222,662</u>	<u>286,652,385</u>
Non-current portion:		
Loan from commercial banks	458,993,382	277,869,165
Loan from Ministry of Finance	46,714,870	51,812,192
Total non-current portion of long-term loans	<u>505,708,252</u>	<u>329,681,357</u>
	<u>835,930,914</u>	<u>616,333,742</u>

Loans from Ministry of Finance are secured by the mortgage of land and building of Saudi German Hospital - Riyadh, Madinah and Hail (Note 4.3). These loans are interest free.

The loans from commercial banks are borrowed at SIBOR plus an agreed mark up. These loans are secured through promissory notes issued by the Company.

MIDDLE EAST HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

For the nine month period ended 30 September 2019
(Expressed in Saudi Arabian Riyals)

9. ACCOUNTS PAYABLE

Accounts payable comprise of the following:

	<u>Note</u>	30 September 2019 (Unaudited)	31 December 2018 (Audited)
Third party suppliers		262,015,416	179,119,997
Due to related parties	14	103,107,186	91,234,531
		<u>365,122,602</u>	<u>270,354,528</u>

10. ZAKAT

The GAZT issued the Zakat assessment for the years ended 31 December 2005 to 2008, under which GAZT claimed additional amount of SR 1.31 million as a full and final settlement through Dispute Resolution Committee (DRC). The Company has paid the additional zakat and accordingly the Company has received final zakat assessment for these years.

The Company filed the Zakat/tax returns for the years ended 31 December 2009 to 2018, and obtained the unrestricted Zakat/tax certificate for the year 2018. The assessment for these years has not yet finalized.

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

The Subsidiary Company (NHC) has finalized its Zakat/tax assessment up to the year ended December 31, 2012. NHC filed the Zakat/tax return for the year ended December 31, 2013 and obtained the unrestricted Zakat and tax certificate for the said year. The GAZT issued the Zakat and tax 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 till todate.

The Subsidiary Company filed the Zakat/tax returns for the years ended December 31, 2014 to 2018 and obtained the unrestricted Zakat / tax certificate for the year 2017 and facility letter for the year 2018 in in process. The GAZT did not issue the final Zakat and tax assessment for the said years to date.

11. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the period have been computed by dividing the net profit attributable to shareholders of the Parent Company for the period by the weighted average number of shares outstanding during the period.

12. 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.

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

The Group adopted IFRS 16 using the simple modified method of adoption 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
<i>Recognition exemptions:</i>	
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	32,747,996

Impact on comprehensive income

During the nine-months period ended 30 September 2019, due to the adoption of IFRS 16 – "Leases", the Group's operating profit has declined by SAR 626,047, by way of decrease in operating lease rentals by SAR 4,030,464 and increase in depreciation expense by SAR 3,112,842, whereas interest expense has increased by SAR1,350,855.

Reconciliation of right-of-use assets

Asset recognized at initial application	32,747,996
Amortization for the period	(3,112,842)

Net carrying value of right-of-use assets as at 30 September 2019	29,635,154
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13. FINANCIAL RISK AND CAPITAL 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 the financial risks in close co-operation 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.

Risk management systems are reviewed regularly by the executive management team to reflect changes in market conditions and the Group's activities.

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 condensed interim consolidated statement of financial position include cash and cash equivalents, accounts receivable, borrowings, account payable and accrued expenses and other current 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 amounts reported in the financial statements, when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

Interest rate risk

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:

Variable rate instruments	30 September 2019	31 December 2018
Financial liabilities	<u>784,421,954</u>	<u>556,869,165</u>

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13. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

Interest rate sensitivity analysis

Profit or loss and equity is sensitive to higher / lower interest expense from borrowings as a result of changes in interest rates. The Company's profit before tax and zakat is affected as follows:

Variable rate instruments	30 September 2019	30 September 2018
Interest rate - increase by 100 basis points	<u>(5,883,164)</u>	<u>(2,938,730)</u>
Interest rate - decrease by 100 basis points	<u>5,883,164</u>	<u>2,938,730</u>

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's management monitors such fluctuations and manages its effect on the condensed consolidated interim financial statements accordingly. The Group does not have significant exposure to currency risk since majority of its transactions are carried out in Saudi Riyals and US Dollars. The Saudi Riyal is pegged to US Dollars.

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.

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. To reduce exposure to credit risk, the Group has an approval process whereby credit limits are applied to its customers. 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:

	30 September 2019	31 December 2018
Financial assets		
Accounts receivable	1,234,898,395	1,167,439,334
Bank balance	47,346,541	41,747,215
Staff advances	<u>2,514,186</u>	<u>1,455,212</u>
	<u>1,284,759,122</u>	<u>1,210,641,761</u>

Trade and other receivables are carried net of provision for expected credit losses. At the reporting date, four major customers constitute 85% (31 December 2018: 84%) of total receivables. However, the Company assessed the concentration of risk with respect to accounts receivable and concluded it to be low.

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13. FINANCIAL RISK AND CAPITAL 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 principal payments.

30 September 2019	<u>Contractual cash flows</u>						<u>Total</u>
	<u>Carrying Amount</u>	<u>Less than 6 months</u>	<u>6 months to 1 year</u>	<u>1 year to 3 years</u>	<u>3 years to 5 years</u>	<u>More than 5 years</u>	
<i>Non derivative financial liabilities</i>							
Loans and borrowings	835,930,914	304,400,000	24,553,571	542,240,619	137,263,415	104,917,919	1,113,375,524
Accounts payable	365,122,602	365,122,602	—	—	—	—	365,122,602
Lease liabilities	30,383,245	2,681,768	2,681,768	14,481,149	4,740,000	19,085,000	43,669,685
Other financial liabilities	42,577,781	—	6,607,500	23,600,682	6,965,000	8,307,500	45,480,682
Accrued and other liabilities	95,424,493	95,424,493	—	—	—	—	95,424,493
	1,369,439,035	767,628,863	33,842,839	580,322,450	148,968,415	132,310,419	1,663,072,986

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13. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

Liquidity risk (continued)

<u>31 December 2018</u>	<u>Carrying Amount</u>	<u>Less than 6 months</u>	<u>Contractual cash flows</u>				<u>Total</u>
			<u>6 months to 1 year</u>	<u>1 year to 3 years</u>	<u>3 years to 5 years</u>	<u>More than 5 years</u>	
<i>Non derivative financial liabilities</i>							
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 expenses and other liabilities	96,791,405	96,791,403	--	--	--	--	96,791,403
	1,038,083,578	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.

14. RELATED PARTY TRANSACTIONS

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 Company's Board of Directors.

All outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash.

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14. RELATED PARTY TRANSACTIONS (continued)

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

<u>Transaction with</u>	<u>Relationship</u>	<u>Nature of transaction</u>	<u>Transaction during the period</u>		<u>Closing balance</u>	
			<u>30 September 2019</u>	<u>30 September 2018</u>	<u>30 September 2019</u>	<u>31 December 2018</u>
			<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
<u>Due from related parties</u>						
-Bait Al Batterjee Company for Education & Training	Affiliate	Staff training	686,520	226,866	607,076	--
-Emirates Healthcare Development Company	Affiliate	Management fee	7,754,140	6,321,414	653,775	2,044,055
-Egypt Healthcare Company	Affiliate	Management fee	1,472,480	--	1,052,149	--
-Bait Al Batterjee Medical College	Affiliate	Training Fee	4,089,001	--	3,971,995	--
-Al Bait International Company	Affiliate	Medical services	4,243,188	2,365,856	1,434,415	2,365,856
-Bait Al Batterjee Medical Company	Share holder	Advisory fee	--	4,500,639	--	174,784
-Bait Al Batterjee Fitness Company	Affiliate	Medical services	102,949	409,192	451,229	409,192
					<u>8,170,639</u>	<u>4,993,887</u>
<u>Due to related parties</u>						
-Bait Al Batterjee Pharmaceutical Company	Affiliate	Supplies of certain pharmaceutical	13,721,899	15,681,982	8,851,732	1,137,691
-Abdul Jalil Khalid Batterjee Medical Instrumentation Maintenance Company	Affiliate	Repair of medical instruments	4,436,938	2,529,659	3,090,735	2,234,625
-International Hospital Construction Company	Affiliate	Construction and renovation	105,890,380	137,322,430	89,564,030	87,460,757
-Bait Al Batterjee Medical Education & Training Company	Affiliate	Training fee	--	176,646	--	79,444
-Bait Al Batterjee Medical Company	Share holder	Advisory fee	4,961,952	4,500,639	1,600,689	--
-Gulf Youth Company for Investment and Real Estate Development (JAN-PRO)	Affiliate	Janitorial services	17,464,329	9,451,001	--	322,014
					<u>103,107,186</u>	<u>91,234,531</u>

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14. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

The remuneration of the Directors and key management during the period was as follows:

	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)
Short-term benefits	<u>3,252,078</u>	<u>2,555,420</u>
Post-employment benefits	<u>628,724</u>	<u>156,122</u>

Short-term benefits include the monthly gross salary paid to the key management personnel which include basic salary and the allowances. Key management employees are assigned by shareholders, therefore post-employment and other long-term benefits are paid by the shareholders.

15. SEGMENT INFORMATION

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

	30 September 2019 (unaudited)				
	<u>In patient services</u>	<u>Outpatient services</u>	<u>Pharmacy sales</u>	<u>Others</u>	<u>Total</u>
Revenue	590,243,261	288,328,732	201,061,886	10,498,732	1,090,132,611
Cost of revenue	<u>(389,403,580)</u>	<u>(208,781,737)</u>	<u>(167,602,459)</u>	-	<u>(765,787,776)</u>
Gross profit	200,839,681	79,546,995	33,459,427	10,498,732	324,344,835
Operating expenses					<u>(265,138,631)</u>
Operating profit					59,206,204
Other income					13,061,899
Finance charges					<u>(16,581,735)</u>
Zakat					<u>(3,512,500)</u>
Net profit					<u>52,173,868</u>

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15. SEGMENT INFORMATION (continued)

	<u>30 September 2018 (unaudited)</u>				
	<u>In patient services</u>	<u>Outpatient services</u>	<u>Pharmacy sales</u>	<u>Others</u>	<u>Total</u>
Revenue	587,089,472	287,658,856	198,233,313	7,028,640	1,080,010,281
Cost of revenue	(335,146,199)	(185,107,773)	(170,252,801)	(311,275)	(690,818,048)
Gross profit	251,943,273	102,551,083	27,980,512	6,717,365	389,192,233
Operating expenses					(250,425,681)
Operating profit					138,766,552
Other income					7,684,343
Finance charges					(6,564,658)
Zakat					(4,574,997)
Net profit					135,311,240

Management monitors the operating results of its operating segments separately for the purpose of performance assessment.

Geographical Segment:

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

16. CONTINGENCIES

The Group has following contingencies and commitments as of 30 September 2019.

- 16.1 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 2.88 million (31 December 2018: 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
- 16.2 The branches have filed multiple cases against number of patients / customers for the recovery of outstanding claims. Most of the cases are still pending for hearing in different courts of law. The total amount under claims is SR 22.75 million (31 December 2018: 19.9 million). The management believes that it has strong grounds and evidence for favourable outcome of these cases and accordingly no provision is required.
- 16.3 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 0.26 million (31 December 2018: 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.

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17. STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

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

<i>Standard / Interpretation</i>	<i>Description</i>	<i>Effective from periods beginning on or after the following date</i>
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 17	Insurance contracts	1 January 2021
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.

18. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved by the Company's Board of Directors on -----.