

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

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS (UNAUDITED)**
For the three-month and six-month periods ended 30 June 2018
together with the Independent Auditors' Review Report



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

To the Shareholders of
Middle East Healthcare Company
(A Saudi Joint Stock Company)
Jeddah, Kingdom of Saudi Arabia

Introduction

We have reviewed the accompanying 30 June 2018 condensed consolidated interim financial statements of Middle East Healthcare Company ("MEAHCO") ("the Company") and its subsidiary (together referred to as "the Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 June 2018;
- the condensed consolidated statement of profit or loss and other comprehensive income for the three-month and six-month periods ended 30 June 2018;
- the condensed consolidated statement of changes in equity for the six-months period ended 30 June 2018;
- the condensed consolidated statement of cash flows for the six-months period ended 30 June 2018; 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 June 2018 condensed consolidated interim financial statements of Middle East Healthcare Company and its subsidiary is not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting" that is endorsed in the Kingdom of Saudi Arabia.



Other matter

The condensed consolidated interim financial statements of the **Middle East Healthcare Company Limited** and its subsidiary for the year ended 31 December 2017, for the three month period ended 31 March 2018 and for the six month period ended 30 June 2017 were audited and reviewed by another auditors who have expressed an unmodified opinion and conclusions thereon vide their reports dated 26 March 2018, 7 May 2018 and 10 August 2017 respectively.

For KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No. 382

Jeddah, 26 Dhul Qadah 1439H
Corresponding to 8 August 2018



MIDDLE EAST HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 June 2018

(Expressed in Saudi Arabian Riyals)

	Notes	30 June 2018	31 December 2017
ASSETS			
Non-current assets			
Property and equipment	4	1,312,820,548	1,267,027,140
Intangible assets		5,365,620	5,751,955
Total non-current assets		1,318,186,168	1,272,779,095
Current assets			
Inventories		110,186,621	111,449,774
Accounts receivable	5	1,025,778,994	883,178,310
Prepayments and other current assets		54,386,600	46,205,961
Cash and bank balances		148,434,875	111,053,895
Total current assets		1,338,786,790	1,151,887,940
Total assets		2,656,972,958	2,424,667,035
EQUITY AND LIABILITIES			
Share capital			
Share capital	6	920,400,000	920,400,000
Statutory reserve		154,827,612	154,827,612
Retained earnings		311,468,182	374,146,669
Equity attributable to shareholders of the Company		1,386,695,794	1,449,374,281
Non-controlling interest		47,680,310	51,731,710
Total equity		1,434,376,104	1,501,105,991
Non-current liabilities			
Term loans – non-current portion	7	166,625,283	131,025,594
Other non-current financial liabilities		34,676,154	40,908,116
Deferred income		22,734,399	22,209,797
Employees' end of service benefits		188,686,993	183,215,920
Total non-current liabilities		412,722,829	377,359,427
Current liabilities			
Short-term borrowings and current portion of term loans	7	189,376,453	172,876,453
Current portion of other non-current financial liabilities		19,401,565	18,883,227
Accounts payable	8	332,669,030	273,885,773
Accrued expenses and other current liabilities		81,307,877	75,032,286
Dividend payable	6	184,080,000	--
Zakat payable	9	3,039,100	5,523,878
Total current liabilities		809,874,025	546,201,617
Total liabilities		1,222,596,854	923,561,044
Total equity and liabilities		2,656,972,958	2,424,667,035

Sobhi Abduljalil Batterjee
Chairman

Mohammed Mamoun Al Najjar
Chief Executive Officer

Alarma Varghese Thomas
Chief Financial Officer

The notes on pages from 5 to 21 form an integral part of these condensed consolidated interim financial statements.

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 six-month periods ended 30 June 2018
(Expressed in Saudi Arabian Riyals)

Notes	For the three-month period ended		For the six-month period ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Revenue	346,127,107	351,279,121	741,236,290	744,809,386
Cost of revenue	(229,218,649)	(212,653,725)	(463,909,047)	(425,717,106)
Gross profit	116,908,458	138,625,396	277,327,243	319,092,280
Selling and marketing expenses	(3,589,234)	(2,400,920)	(5,231,158)	(6,641,617)
General and administrative expenses	(81,657,518)	(77,259,484)	(154,617,662)	(146,448,910)
Results from operating activities	31,661,706	58,964,992	117,478,423	166,001,753
Other income	3,374,237	3,334,717	5,882,713	6,700,045
Finance cost	(1,743,628)	(4,151,031)	(3,761,023)	(7,854,786)
Net profit before Zakat	33,292,315	58,148,678	119,600,113	164,847,012
Zakat	9 (1,025,001)	(2,715,827)	(3,050,000)	(6,025,827)
Net profit for the period	32,267,314	55,432,851	116,550,113	158,821,185
Other comprehensive income:				
<i>Items that can never be classified to profit or loss:</i>				
Re-measurement on actuarial gain / loss				
	--	--	--	--
Total comprehensive income for the period	32,267,314	55,432,851	116,550,113	158,821,185
Total comprehensive income for the period attributable to:				
Shareholders' of the Parent Company	34,272,567	61,948,863	121,401,513	171,916,416
Non-controlling interest	(2,005,253)	(6,516,012)	(4,851,400)	(13,095,231)
Net profit for the period	32,267,314	55,432,851	116,550,113	158,821,185
Basic and Diluted earnings per share attributable to the shareholders of the Parent Company				
10	0.37	0.67	1.31	1.86

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MIDDLE EAST HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six-month period ended 30 June 2018
(Expressed in Saudi Arabian Riyals)

	Notes	Share capital	Statutory reserve	Retained earnings	Total shareholders' equity	Non-controlling interest	Total Equity
Balance at 1 January 2017		920,400,000	124,819,329	549,173,636	1,594,392,965	59,351,808	1,653,744,773
Adjustment on adoption of IFRS-9		—	—	(274,268,254)	(274,268,254)	—	(274,268,254)
Balance at 1 January 2017 – adjusted	2	920,400,000	124,819,329	274,905,382	1,320,124,711	59,351,808	1,379,476,519
Total comprehensive income for the period		—	—	171,916,416	171,916,416	(13,095,231)	158,821,185
Dividend	6	—	—	(184,080,000)	(184,080,000)	—	(184,080,000)
Advance towards share capital		—	—	—	—	19,500,000	19,500,000
Balance at 30 June 2017		920,400,000	124,819,329	262,741,798	1,307,961,127	65,756,577	1,373,717,704
Balance at 1 January 2018		920,400,000	154,827,612	629,012,157	1,704,239,769	51,731,710	1,755,971,479
Adjustment on adoption of IFRS-9		—	—	(254,865,488)	(254,865,488)	—	(254,865,488)
Balance at 1 January 2018 – adjusted	2	920,400,000	154,827,612	374,146,669	1,449,374,281	51,731,710	1,501,105,991
Total comprehensive income for the period		—	—	121,401,513	121,401,513	(4,851,400)	116,550,113
Dividend	6	—	—	(184,080,000)	(184,080,000)	—	(184,080,000)
Advance towards share capital		—	—	—	—	800,000	800,000
Balance at 30 June 2018		920,400,000	154,827,612	311,468,182	1,386,695,794	47,680,310	1,434,376,104

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MIDDLE EAST HEALTHCARE COMPANY
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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
For the six-month period ended 30 June 2018
(Expressed in Saudi Arabian Riyals)

	30 June 2018	30 June 2017
Cash flows from operating activities	119,600,113	164,847,012
Net profit before Zakat		
<u>Adjustments for:</u>		
Depreciation	42,077,842	36,209,203
Amortisation	397,099	449,051
Provision for doubtful accounts receivable	(7,365,196)	(9,701,384)
Provision for slow moving and obsolete inventories	654,338	645,282
Amortization deferred income	524,602	7,102,777
Provision for employees' end of service benefits	16,456,364	16,057,232
	172,345,162	215,609,173
<u>Changes in operating assets and liabilities:</u>		
Accounts receivable	(135,235,488)	80,413,416
Inventories	608,815	(16,405,768)
Prepayments and other current assets	(8,180,639)	(45,430,977)
Accounts payable	58,783,257	(28,211,491)
Accrued expenses and other current liabilities	6,275,591	7,520,232
Other financial liabilities	(5,713,624)	12,311,593
Cash generated from operating activities	88,883,074	225,806,178
Employees' end of service paid	(10,985,291)	(6,441,330)
Zakat paid	(5,534,778)	(3,978,050)
Net cash generated from operating activities	72,363,005	215,386,798
Cash flows from investing activities:		
Additions to property and equipment	(87,871,250)	(59,486,046)
Additions to intangibles	(10,764)	(526,952)
Net cash used in investing activities	(87,882,014)	(60,012,998)
Cash flows from financing activities:		
Dividend paid	--	(184,080,000)
Term loans and borrowings, net	52,099,689	(44,814,070)
Advance against proposed increase in share capital of the subsidiary from NCI shareholders	800,000	19,500,000
Cash generated from / (used in) financing activities	52,899,689	(209,394,070)
Net change in cash and cash equivalents	37,380,680	(54,020,270)
Cash and cash equivalents at beginning of the period	111,053,895	155,090,776
Cash and cash equivalents at the end of the period	148,434,575	101,070,506


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MIDDLE EAST HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

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

For the period ended 30 June 2018
(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-Awai 1437H, corresponding to 30 December 2015, the Company obtained approval from Capital Management Authority (CMA) to offer 27,612,000 shares in Initial Public Offering and the Company's shares are listed at Saudi Stock Exchange (Tadawul) on Jumada Al Thani 20, 1437H, corresponding to 29 March 2016. Accordingly, the Company was converted to a Public Joint Stock Company.

The main activity of the Company is 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:

<u>Branch name</u>	<u>Commercial registration</u>	<u>Issued on</u>	<u>Corresponding to</u>
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 Development	4030181710	4 Shaban 1429H	6 August 2008
Saudi German Hospital – Dammam	2050105713	18 Rajab 1436H	7 May 2015
Beverly Clinics - Jeddah	4030297688	26 Safar 1439H	15 November 2017

The Company has investments in the following subsidiary at the reporting periods:

<u>Subsidiary name</u>	<u>Commercial registration</u>	<u>Issued on</u>	<u>Corresponding to</u>
National Hail Company for Healthcare (NHC), a closed joint stock company	3350019735	2 Rajab 1428H	16 July 2007

The Company hold 32.33% (2017: 32.33%) in NHC, however based on control exercised by the Group, NHC has been consolidated as subsidiary. The 67.67% shares in NHC are disclosed as Non-Controlling interest.

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

For the period ended 30 June 2018
(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 2017.

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, except for employee benefits, which are recognised at the present value of future obligation using the Projected Unit Credit Method. 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 Company'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.

Subsidiary is an entity controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

For the period ended 30 June 2018
(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

2.2 Basis of consolidation (continued)

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

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

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent of the Group and to the non-controlling interests.

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

2.3 Changes in significant accounting policies

Except as described below, the accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the last annual financial statements as at and for the year ended 31 December 2017. The changes in accounting policies are also expected to be reflected in the annual consolidated financial statements as at and for the year ending 31 December 2018.

The Group has initially adopted IFRS 15 "Revenue from Contracts with Customers" (see a) and IFRS 9 "Financial Instruments" (see b) from 1 January 2017. The effect of initial application of these standards is mainly attributed to the following:

- presentation of revenue net off discounts and rejections (see a below)
- An increase in impairment losses recognised on financial assets (see b below); and

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

For the period ended 30 June 2018

(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

2.3 Changes in significant accounting policies (continued)

(a) Revenue from contracts with customers

IFRS 15: "Revenue from contracts with customers" supersedes IAS 11: "Construction Contracts", IAS 18: "Revenue" and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to the contracts with their customers. The Standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group elected the modified retrospective method and applied the standard retrospectively to only the most current period presented in the financial statements. The Group recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application i.e. 1 January 2018 which is allowed in the standard. Accordingly, the information presented for the previous corresponding period has not been restated.

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

(i) 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 the point in time when control of the asset is transferred to the customer, generally on delivery of the medicines and drugs. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition and the amount of revenue recognised.

(ii) 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. Prior to the adoption of IFRS 15, management made its best estimate of the discount / rejections adjustment based on its knowledge and experience about past and current events. Under IFRS 15, management will estimate variable consideration using the expected value method for discounts and rejections. Management shall apply 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 shall consider all the information (historical, current and forecast) that is reasonably available to the Company and shall identify a reasonable number of possible consideration amounts.

MIDDLE EAST HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

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

For the period ended 30 June 2018

(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

2.3 Changes in significant accounting policies (continued)

a) Revenue from contracts with customers (continued)

The impact of adoption of IFRS 15 on accounts receivable and revenue is tabulated as follows:

<u>As at 1 January 2017</u>	<u>Carrying amount under IAS 18</u>	<u>Provision for discount and rejection</u>	<u>Carrying amount under IFRS 15</u>
Accounts receivables – gross	1,422,766,455	(278,302,086)	1,144,464,369
Provision for rejection and discount	(278,302,086)	278,302,086	--
Accounts receivables - net	<u>1,144,464,369</u>	<u>--</u>	<u>1,144,464,369</u>
	<u>Revenue recognized as per IAS 18</u>	<u>Provision for discount and rejection</u>	<u>Revenue recognized as per IFRS 15</u>
Revenue for the six month period ended 30 June 2017	<u>815,689,261</u>	<u>(70,879,875)</u>	<u>744,809,386</u>
Revenue for the three month period ended 30 June 2017	<u>391,685,161</u>	<u>(40,406,040)</u>	<u>351,279,121</u>
Revenue for the year ended 31 December 2017	<u>1,629,429,607</u>	<u>(167,039,208)</u>	<u>1,462,390,399</u>

b) IFRS 9 - Financial instruments

IFRS 9: "Financial Instruments" replaces IAS 39: "Financial Instruments: Recognition and Measurement" for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

On adoption of IFRS 9, the Company has restated comparative period financial information and has recognized any measurement differences between the previous carrying amount and the new carrying amount, through an adjustment to opening retained earnings as of 1 January 2017.

(i) Classification and measurement

At transition date to IFRS 9, the Group has financial assets measured at amortised cost. The classification and measurement of the Group's financial assets are as follows:

Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and other receivables.

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

For the period ended 30 June 2018
(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

2.3 Changes in significant accounting policies (continued)

b) IFRS 9 - Financial instruments (continued)

(i) Classification and measurement (continued)

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2017 relates to the new impairment requirements, as described further below:

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Accordingly, the adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities. As at the reporting date, all financial liabilities of the Company are carried at amortized cost.

(ii) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at fair value through profit and loss (FVTPL).

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For accounts and other receivables, the Group has applied the Standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group elected the impact of adopting lifetime expected credit loss on accounts and other receivables under IFRS 9 are as follows:

<u>As at January 1, 2017</u>	<u>Carrying amount under IAS 39</u>	<u>Provision for impairment</u>	<u>Carrying amount under IFRS 9</u>
Accounts receivable- net after application of IFRS-15 [see note 2(a) above]	1,144,464,369	--	1,144 464 369
Provision for bad and doubtful debts	--	(274,268,254)	(274,268,254)
Accounts receivable - net	<u>1,144,464,369</u>	<u>(274,268,254)</u>	<u>870,196,115</u>

MIDDLE EAST HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

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

For the period ended 30 June 2018
(Expressed in Saudi Arabian Riyals)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In preparing these interim financial statements, management has made judgments and estimates that effect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgments made by management in applying Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 15 and IFRS 9, which were described in Note 2.

4. PROPERTY AND EQUIPMENT

	30 June 2018	31 December 2017
Operating fixed assets	1,081,726,275	1,110,061,940
Capital work-in-progress (CWIP)	231,094,273	156,965,200
Total	<u>1,312,820,548</u>	<u>1,267,027,140</u>

- 4.1 CWIP mainly contains the construction of a new Hospital in Dammam and renovations of several hospitals buildings at different locations.
- 4.2 During the period finance charges amounting to SR 2.9 million have been capitalized in CWIP.
- 4.3 The land and building having a net book value of SR 347.5 million are mortgaged to secure loan from Ministry of Finance.

5. ACCOUNTS RECEIVABLE

Accounts receivable comprise of the following

	30 June 2018	31 December 2017
Customers	1,272,019,397	1,134,212,435
Related parties	1,259,889	3,831,363
	<u>1,273,279,286</u>	<u>1,138,043,798</u>
Expected credit losses	<u>(247,500,292)</u>	<u>(254,865,488)</u>
	<u>1,025,778,994</u>	<u>883,178,310</u>

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6. 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 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 (SR 184.08 million for the year ended 31 December 2016 in the annual General Meeting held on 8 June 2017).

7. TERM LOANS

Term loans comprise for the following:

	30 June 2018	31 December 2017
Loan from commercial banks	292,778,644	240,445,869
Loan from Ministry of Finance	84,855,683	88,338,182
Adjustment for deferred income	(21,632,591)	(24,882,004)
Loan from Ministry of Finance - net	63,223,092	63,456,178
Total	356,001,736	303,902,047
	30 June 2018	31 December 2017
Current portion:		
Loan from commercial banks	26,250,000	78,750,000
Short-term borrowings	154,000,000	85,000,000
Loan from Ministry of Finance	9,126,453	9,126,453
Total current portion	189,376,453	172,876,453
Long-term:		
Loan from commercial banks	112,528,646	76,695,869
Loan from Ministry of Finance	54,096,637	54,329,725
Total non-current portion of long-term loans	166,625,283	131,025,594
	356,001,736	303,902,047

Loans from Ministry of Finance are secured by the mortgage of land and building of Saudi German Hospital - Riyadh, Madinah and Hail. 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.

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8. ACCOUNTS PAYABLE

Accounts payable comprise of the following:

	<u>Note</u>	30 June 2018	31 December 2017
Due to related parties	12	69,659,527	61,102,613
Third party suppliers		263,009,503	212,783,160
		332,669,030	273,885,773

9. ZAKAT

The Zakat returns for the years from 2005 to 2008, have been filed with the General Authority of Zakat and Tax (GAZT). The Company filed the returns without paying the Zakat due of SR 0.44 million as per these returns. Accordingly, GAZT had not issued the Zakat certificate for the year 2008.

The GAZT issued the Zakat assessment for the years ended December 31, 2005 to 2008, under which GAZT claimed an additional Zakat of SR 18.1 million. The Company objected against the said assessment, upon which the GAZT issued the revised assessment after reducing the additional claim made by SR 6.7 million. The Company again filed an objection against the revised assessment which was transferred to the Preliminary Objection Committee (POC) for review and decision. The POC has issued a decision and further reduced the additional claim by SR 1.1 million. The Company has again filed an appeal against the POC's decision with the Higher Appeal Committee (HAC) and submitted a bank guarantee of SR 10.23 million, which is still under review by HAC.

The Company filed the Zakat/tax returns for the years ended December 31, 2009 to 2017, and obtained facility letters for these years. The GAZT did not issue the final Zakat and tax assessment for these years to date.

10. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the period ended have been computed by dividing the net profit from operations for such period by the weighted average number of shares outstanding at the end of the period.

11. 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.

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11. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

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 June 2018	31 December 2017
Financial liabilities	<u>292,778,644</u>	<u>240,445,869</u>

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11. 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:

	30 June 2018	31 December 2017
Interest rate - increase by 100 basis points	2,927,786	2,404,459
Interest rate - decrease by 100 basis points	<u>(2,927,786)</u>	<u>(2,404,459)</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 June 2018	31 December 2017
Financial assets		
Accounts receivable	1,025,778,994	883,178,310
Staff advances	2,488,078	1,932,027
Bank balance	<u>145,322,516</u>	<u>108,602,645</u>
Total	<u>1,173,589,588</u>	<u>993,712,982</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 2017: 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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11. 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 interest payments and exclude the impact of netting agreements

	<u>Contractual cash flows</u>					
30 June 2018	<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	377,634,327	186,500,000	3,482,500	43,516,467	39,116,040	105,019,320
Accounts payable	332,669,030	332,669,030	--	--	--	--
Other financial liabilities	54,077,719	10,556,110	8,845,455	23,661,475	7,826,204	3,188,475
Accrued and other liabilities	265,387,877	265,387,877	--	--	--	--
	1,029,768,953	795,113,017	12,327,955	67,177,942	46,942,244	108,207,795

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11. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2017	Carrying Amount	Less than 6 months	Contractual cash flows				More than 5 years
			6 months to 1 year	1 year to 3 years	3 years to 5 years		
Non derivative financial liabilities							
Loans and borrowings	328,784,051	137,500,000	34,732,500	28,546,552	31,941,291		96,063,708
Accounts payable	273,885,773	273,885,773	--	--	--		--
Other financial liabilities	59,791,343	10,598,940	8,284,287	25,850,833	12,767,029		2,290,254
Accrued and other liabilities	75,032,286	75,032,286	--	--	--		--
	737,493,453	497,016,999	43,016,787	54,397,385	44,708,320		98,353,962

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

12. RELATED PARTY TRANSACTIONS

Related parties include the Group's shareholders and their relatives up to the fourth generation, associates, entities with significant influence over the Group, directors and key management personnel of the Group. Terms and conditions of these transactions are approved by the Group'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.

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>	
			30 June <u>2018</u>	31 December <u>2017</u>	30 June <u>2018</u>	31 December <u>2017</u>
<u>Due from related parties</u>						
Bait Al Batterjee Company for Education and Training	Affiliate	Staff training	106,668	183,250	451,578	493,899
Emirates Healthcare Development Company	Affiliate	Management fee	(4,527,374)	(12,507,946)	808,311	3,337,464
					1,259,889	3,831,363

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12. RELATED PARTY TRANSACTIONS (continued)

<u>Transaction with</u>	<u>Relationship</u>	<u>Nature of transaction</u>	<u>Transaction during the period</u>		<u>Closing balance</u>	
			<u>30 June 2018</u>	<u>31 December 2017</u>	<u>30 June 2018</u>	<u>31 December 2017</u>
<u>Due to related parties</u>						
Bait Al Batterjee Pharmaceutical Company	Affiliate	Supplies of certain pharmaceutical	10,479,825	19,697,880	6,255,869	4,119,040
Abdul Jalil Khalid Batterjee Medical Instrumentation Maintenance Company	Affiliate	Repair of medical instrument	1,521,233	4,733,433	1,464,797	1,543,271
International Hospital Construction Company	Affiliate	Construction and renovation	58,082,445	145,674,208	61,263,855	54,511,946
Bait Al Batterjee Medical Company	Holding Co.	Advisory fee	3,000,426	5,238,842	321,391	--
Gulf Youth Company for Investment and Real Estate Development (JAN-PRO)	Affiliate	Janitorial services	5,383,992	11,018,336	353,615	928,356
					69,659,527	61,102,613

Compensation of key management personnel

The remuneration of the key management during the year was as follows:

	<u>30 June 2018</u>	<u>30 June 2017</u>
Short-term benefits	1,569,265	1,701,769
Post employment benefits	92,831	92,831

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.

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13. 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

	<u>In patient services</u>	<u>Outpatient services</u>	<u>Pharmacy sales</u>	<u>Others</u>	<u>Total</u>
Revenue	402,932,141	188,725,871	144,592,635	4,985,643	741,236,290
Cost of revenue	<u>(222,437,038)</u>	<u>(120,997,415)</u>	<u>(120,232,824)</u>	<u>(241,770)</u>	<u>(463,909,047)</u>
Gross profit	180,495,103	67,728,456	24,359,811	4,743,873	277,327,243
Operating expenses					<u>(159,848,820)</u>
Operating profit					117,478,423
Other income					5,882,713
Finance charges					(3,761,023)
Zakat					<u>(3,050,000)</u>
Net profit					<u>116,550,113</u>

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.

14. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

(a) IFRS 16 "Leases"

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including '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 is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

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14. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose whether to:

- Apply the IFRS 16 definition of a lease to all its contracts; or
- Apply a practical expedient and not reassess whether a contract is, or contains, a lease.

Transition

As a lessee, the Group can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Group currently plans to apply IFRS 16 initially on 1 January 2019. The Group has not yet determined which transition approach to apply. As a lessor, the Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

(b) Annual Improvements to IFRSs 2015–2017 Cycle

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – clarifies how a company accounts for increasing its interest in a joint operation that meets the definition of a business.

- If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.
- If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.
- IAS 12 Income Taxes – clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits i.e. in profit or loss, other comprehensive income or equity.
- IAS 23 Borrowing Costs – clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

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14. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(c) Other Amendments

The following new or amended standards which are not yet effective and neither expected to have a significant impact on the Group's condensed consolidated interim financial statements.

- IFRIC 23 Uncertainty over Income Tax Treatments – clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendments, Curtailment or Settlement (Amendments to IAS 19).

15. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved by the Company's Board of Directors on 26 Dhul Qadah 1439H, corresponding to 8 August 2018.