

**Al Hammadi Company for
Development and Investment
(A Saudi Joint Stock Company)**

**Financial Statements
For the Year Ended December 31, 2017
Together with Independent Auditor's Report**

**Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)**

**Financial Statements
For the Year Ended December 31, 2017
Together with Independent Auditor's Report**

Index	Page
Independent Auditor's Report	1-7
Statement Of Profit Or Loss	8
Statement Of Comprehensive Income	9
Statement Of Financial Position	10
Statement of Changes in Equity	11
Statement Of Cash Flows	12
Notes to The Financial Statements	13-44

INDEPENDENT AUDITOR'S REPORT

**TO: THE SHAREHOLDERS OF
AL HAMMADI COMPANY FOR DEVELOPMENT AND INVESTMENT
(A Saudi Joint Stock Company)**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **AL HAMMADI COMPANY FOR DEVELOPMENT AND INVESTMENT (the "Company")**, which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters (Continued)

Revenue recognition	
Key audit matter	How the matter was addressed in our audit
<p>The Company recognized revenue of SR 708.6 million for the year ended 31 December 2017 (2016: SR 606.2 million). Revenue represents clinics services revenue and sale of goods - pharmacy.</p> <p>The Company recognizes revenue when:</p> <ul style="list-style-type: none"> • Performance of a medical service occurs, and is measured at the fair value of the consideration received or receivable and net of trade discount, quantity discount and insurance companies' rejections upon providing the services to customers or upon delivery of products or accepted by customers; and • Significant risks and rewards of ownership of the goods have been transferred to the buyer related to the sale of pharmacy. <p>Revenue recognition is considered a key audit matter as there is a risk that revenue may be misstated due to management's override of controls, judgment involved in estimating the related provisions, mainly insurance companies' rejection rates and that the timing and amount of revenue recognized in a financial period can have a material effect on the financial performance.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> - Considering the appropriateness of revenue recognition as per the Company's policies including those relating to discounts and assessing compliance with applicable accounting standards; - Testing the design and effectiveness of internal controls implemented by the Company through the revenue cycle; - Testing sales transactions taking place at either side of the statement of financial position date to assess whether the revenue was recognized in the correct period; - Evaluating the method of provision related to accepted rejections of insurance companies. This was achieved through applying retrospective testing of management's judgment of such estimates; - Evaluating the contractual discounts arrangements with key customers, by recalculating the discounts awarded to such customers and also by agreeing the same with financial information used for the financial statements; and - Performing analytical review on revenue based on trends monthly sales and profit margins.
<p>Refer to note (2.5) for the accounting policy and note (6) for related disclosures.</p>	

Key Audit Matters (Continued)

Impairment of trade receivables	
Key audit matter	How the matter was addressed in our audit
<p>The Company's trade receivables, net balance was SR 252.4 million as at 31 December 2017 (31 December 2016: SR 430.4 million and 1 January 2016: SR 248.8 million). Management estimates the collectible amount of trade receivables. For significant account balances this estimation is performed on an individual basis. Amounts which are not individual significant, but which are past due, are assessed collectively and a provision applied according to the length of time that the amount is past due.</p> <p>We considered impairment of trade receivables as a key audit matter due to the significant management judgment involved in determining the provision for doubtful debts and that the existence and carrying value of trade receivables could be material to the performance of the Company and to the Company's assets.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> - Considering the appropriateness of impairment of trade receivables as per the Company's policies and assessing compliance with applicable accounting standards; - Testing the design and effectiveness of internal controls implemented by the Company through the trade receivables cycle; - Critically considering management's assumption used in determining impairment losses for both specific and collective loss components; - Identifying those trade receivables with credit risk exposure and checking if they are properly included in management's impairment assessment; - Examining on a sample basis, evidence related to post year-end cash receipts. - We re-calculated the provision against trade receivables based on the Company's policies to ensure that the provision is appropriate at the statement of financial position date.
<p>Refer to note (2.15) for the accounting policy and note (13) for related disclosures.</p>	

Key Audit Matters (Continued)

Recoverability of construction in progress	
Key audit matter	How the matter was addressed in our audit
<p>As at 31 December 2017, included in property, and equipment is an amount of SR 785.6 million (31 December 2016: SR 592.8 million and 1 January 2016: SR 470 million) which relates to construction in progress.</p> <p>The Company assesses, at each reporting date, whether there is any indication that the asset may be impaired. If any indication exists, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of value in use and fair value less costs to sell.</p> <p>We considered recoverability of construction in progress as a key audit matter due to the assessment of the recoverable amount of construction in progress requires estimation and judgement around expected production profiles, useful life of assets, future operating and capital expenditure, commodity prices and discount rates. These are all subjective matters.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> - Considering the appropriateness of Company's policies related to construction in progress and assessing compliance with applicable accounting standards; - Assessing management's processes for identification of impairment indications and impairment testing and evaluated the design and implementation of key controls over these processes; - Assessing the reasonableness of the model used by management to estimate the recoverable amount; - Assessing management's assumptions used in the model as well as management's benchmarking with relevant market data and also with the Company's data related to its existing operations; and - Assessing the adequacy of the related disclosures.
<p>Refer to note (2.10) for the accounting policy and note (11) for related disclosures.</p>	

Key Audit Matters (Continued)

IFRS conversion	
Key audit matter	How the matter was addressed in our audit
<p>For all periods up to and including the year ended 31 December 2016, the Company prepared its financial statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia as issued by SOCPA ("Previous GAAP").</p> <p>The Company adopted IFRS as from 1 January 2017.</p> <p>These financial statements for the year ended 31 December 2017 are the first annual financial statements prepared in accordance with IFRS that are endorsed in Kingdom of Saudi Arabia and other standards and pronouncement issued by SOCPA.</p> <p>The Company has prepared these annual financial statements that comply with IFRS that are endorsed in KSA as at 31 December 2017, as well as for presenting the relevant comparative period data for the year ended 31 December 2016. In compliance with the requirements of IFRS 1 endorsed in the Kingdom of Saudi Arabia, the Company's opening statement of financial position was prepared as at 1 January 2016 ("transition date") after incorporating required adjustments to reflect the transition to IFRS that are endorsed in KSA from the Previous GAAP.</p> <p>We considered this a key audit matter as the basis of accounting is fundamental to the presentation and preparation of the financial statements.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> - Considering the Company's governance process around the adoption of IFRS as endorsed in Kingdom of Saudi Arabia especially, in relation to matters requiring management to exercise its judgment; - Obtaining an understanding of the analysis performed by management to identify all significant differences between previous reporting framework and IFRS as Kingdom of Saudi Arabia which can impact the Company's financial statements; - Evaluating the results of management's analysis and key decisions taken in respect of the transition using our knowledge of the relevant requirements of the IFRS as endorsed in Kingdom of Saudi Arabia and our understanding of the Company's business and its operations; - Testing the transition adjustments by considering management's gap analysis the underlying financial information and the computation of these adjustments; and - Evaluating the disclosures made in relation to the transition to IFRS as endorsed in Kingdom of Saudi Arabia by considering the relevant requirements of IFRS 1.
<p>Refer to note (2.1) for basis of preparation and note (3) for related disclosures.</p>	

Other Matter

The financial statements of the Company for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those statements on March 14, 2017.

Other Information

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

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

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

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

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

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on Other Legal and Regulatory Requirements

In our opinion, the financial statements of **AL HAMMADI COMPANY FOR DEVELOPMENT AND INVESTMENT**, taken as a whole, comply with the requirements of the Regulations for Companies and Company's By-laws with respect to the preparation and presentation of financial statements.



**AlAzem & AlSudairy
Certified Public Accountants**



**Salman B. AlSudairy
License No, 283**

12 Rajab 1439H (March 29, 2018)
Riyadh, Kingdom of Saudi Arabia

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2017

	Notes	2017 SAR	2016 SAR
Clinics services revenue, net	6	590,844,145	517,127,249
Sale of goods - Pharmacies		117,780,308	89,113,741
TOTAL REVENUES		708,624,453	606,240,990
Cost of Revenue	7	(449,671,809)	(364,114,748)
GROSS PROFIT		258,952,644	242,126,242
Administrative expenses	8	(127,733,278)	(143,313,205)
Other operating income	9	11,363,064	4,189,803
OPERATING PROFIT		142,582,430	103,002,840
Finance charges	23	(19,567,148)	(19,047,691)
PROFIT BEFORE ZAKAT		123,015,282	83,955,149
Zakat expense	24	(15,050,477)	(11,000,000)
PROFIT FOR THE YEAR		107,964,805	72,955,149
Earnings per share:			
Basic and diluted profit for the year attributable to ordinary equity holders	10	0.90	0.61

The accompanying notes 1 to 28 form an integral part of these financial statements

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 SAR	2016 SAR
PROFIT FOR THE YEAR		<u>107,964,805</u>	<u>72,955,149</u>
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:</i>			
Re-measurement losses on defined benefit plans	20	<u>(519,721)</u>	<u>(1,166,169)</u>
Total other comprehensive loss not to be reclassified to profit or loss in subsequent periods		<u>(519,721)</u>	<u>(1,166,169)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>107,445,084</u></u>	<u><u>71,788,980</u></u>

المدير المالي
محمد بن
سعود



المدير العام
محمد بن
سعود



The accompanying notes 1 to 28 form an integral part of these financial statements

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 SAR	2016 SAR	As at January 1, 2016 SAR
ASSETS				
Non-current assets				
Property and equipment	11	1,797,745,740	1,650,548,581	1,555,688,017
Current assets				
Inventories	12	29,721,689	32,104,516	27,222,231
Trade receivables	13	252,436,303	430,470,509	248,877,852
Prepayments and other assets	14	44,758,892	16,503,711	14,135,766
Amounts due from related parties	15	389,280	248,309	546,895
Cash and cash equivalents	16	178,275,301	12,606,666	89,343,477
		505,581,465	491,933,711	380,126,221
TOTAL ASSETS		2,303,327,205	2,142,482,292	1,935,814,238
EQUITY AND LIABILITIES				
EQUITY				
Share capital	17	1,200,000,000	1,200,000,000	1,200,000,000
Statutory reserve	18	32,857,281	22,060,800	14,592,866
Retained earnings		154,235,430	147,586,827	173,265,781
TOTAL EQUITY		1,387,092,711	1,369,647,627	1,387,858,647
LIABILITIES				
Non-current liabilities				
Long-term loans	23	477,306,380	370,777,036	231,726,483
Employees' termination benefits	20	50,100,456	40,586,187	30,861,696
Government grants	21	168,769,038	148,471,675	38,843,856
		696,175,874	559,834,898	301,432,035
Current liabilities				
Trade payables		34,223,366	37,775,637	36,365,075
Accrued expenses and other liabilities		39,516,872	47,650,397	43,771,019
Amounts due to related parties	15	262,829	431,448	559,630
Short-term revolving loan	23	-	50,000,000	-
Long-term loans	23	40,000,000	61,428,509	152,834,969
Government grants	21	3,952,401	3,448,906	2,960,284
Dividends payable	19	90,000,000	-	-
Zakat payable	24	12,103,152	12,264,870	10,032,579
		220,058,620	212,999,767	246,523,556
TOTAL LIABILITIES		916,234,494	772,834,665	547,955,591
TOTAL EQUITY AND LIABILITIES		2,303,327,205	2,142,482,292	1,935,814,238

The accompanying notes 1 to 28 form an integral part of these financial statements

Al Hammadi Company for Development and Investment
(ASaudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2017

	Share Capital SAR	Statutory Reserve SAR	Retained Earnings SAR	Total equity SAR
As at January 1, 2016	1,200,000,000	14,592,866	173,265,781	1,387,858,647
Profit for the year	-	-	72,955,149	72,955,149
Other comprehensive loss	-	-	(1,166,169)	(1,166,169)
Total comprehensive income	-	-	71,788,980	71,788,980
Transfer to statutory reserve (note 18)	-	7,467,934	(7,467,934)	-
Dividends (note 19)	-	-	(90,000,000)	(90,000,000)
As at December 31, 2016	1,200,000,000	22,060,800	147,586,827	1,369,647,627
As at January 1, 2017	1,200,000,000	22,060,800	147,586,827	1,369,647,627
Profit for the year	-	-	107,964,805	107,964,805
Other comprehensive loss	-	-	(519,721)	(519,721)
Total comprehensive income	-	-	107,445,084	107,445,084
Transfer to statutory reserve (note 18)	-	10,796,481	(10,796,481)	-
Dividends (note 19)	-	-	(90,000,000)	(90,000,000)
As at December 31, 2017	1,200,000,000	32,857,281	154,235,430	1,387,092,711

The accompanying notes 1 to 28 form an integral part of these financial statements

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 SAR	2016 SAR
OPERATING ACTIVITIES			
Profit before Zakat		123,015,282	83,955,149
Adjustments to reconcile profit before Zakat to net cash flow:			
Depreciation of property and equipment	11	53,042,595	53,372,400
Provision for doubtful debts	13	39,269,365	46,890,675
Finance charges		19,567,148	19,047,691
Government grants release	21	(3,658,693)	(2,960,283)
Employees' termination benefits	20	14,650,590	11,461,840
		<u>245,886,287</u>	<u>211,767,472</u>
Working capital adjustments:			
Trade receivables		138,764,841	(228,232,404)
Inventories		2,382,827	(4,882,285)
Net changes in related parties		(309,590)	-
Prepayments and other assets		(28,255,181)	(1,852,807)
Trade payables		(3,552,271)	1,842,010
Accrued expenses and other liabilities		(8,133,525)	5,696,624
		<u>346,783,388</u>	<u>(15,661,390)</u>
Employees' termination benefits paid	20	(5,656,042)	(3,570,145)
Finance charges paid		(15,776,704)	(14,363,215)
Zakat paid	24	(15,212,195)	(8,767,709)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		<u>310,138,447</u>	<u>(42,362,459)</u>
INVESTING ACTIVITIES			
Purchase of property and equipment	11	(196,562,154)	(145,359,060)
NET CASH USED IN INVESTING ACTIVITIES		<u>(196,562,154)</u>	<u>(145,359,060)</u>
FINANCING ACTIVITIES			
Proceeds from bank borrowings		331,632,791	400,875,464
Repayment of bank borrowings		(304,000,000)	(312,500,000)
Received government grants		24,459,551	113,076,724
Dividends paid	19	-	(90,000,000)
NET CASH FROM FINANCING ACTIVITIES		<u>52,092,342</u>	<u>111,452,188</u>
Net changes in cash and cash equivalents		165,668,635	(76,269,331)
Cash and cash equivalent at the beginning of the year		12,606,666	88,875,997
CASH AND CASH EQUIVALENTS AT DECEMBER 31		<u>178,275,301</u>	<u>12,606,666</u>
Supplementary information for non-cash transactions			
Dividends payable		90,000,000	-
Loans' interest capitalized to property and equipment		3,677,600	2,893,401

The accompanying notes 1 to 28 form an integral part of these financial statements

Al Hammadi Company for Development and Investment (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. Corporate information

Al Hammadi Development and Investment Company (the "Company") was established as a limited liability Company under Commercial Registration No. 1010196714 issue on Safar 23, 1425H (corresponding to April 13, 2004) in Riyadh. On Ramadan 16, 1429H (corresponding to September 16, 2008), the Ministry of Commerce and Investment issued the resolution No. Q/316 to approve the Company's conversion to a closed joint stock Company. On Rajab 20, 1435H (corresponding to May 19, 2014) the Company obtained approval from the Capital Market Authority ("CMA") to issue 22.5 million shares in an initial public offering and the Company's shares were listed in Saudi Stock Exchange (Tadawul) on Ramadan 17, 1435H (corresponding to July 15, 2014).

The Company's registered address is Al-Olaya, P.O. Box 55004, Riyadh 11534, Saudi Arabia.

The Company was established to engage in the activities of wholesale and retail trading of medical equipment, establishing, maintaining, managing and operating hospitals and medical centers, wholesale and retail trading of food and beverages, purchasing and rentals of lands for constructing buildings and investing them by means of selling or renting in favor of the Company, initiating or sharing in different industrial projects, initiating commercial centers, operating, and maintaining them, construction and building work and maintaining the same in Saudi Arabia.

These financial statements include the accounts of the Company and the accounts of the following branches, which operate under separate commercial registrations:

Branch Name	Commercial Registration No.	City	Status
Al Hammadi Hospital, Olaya *	1010263026	Riyadh	Active
Al Hammadi Hospital, Al-Suwaidi	1010374269	Riyadh	Active
Al Hammadi Hospital, Al-Nuzha (see note 27)	1010374270	Riyadh	Experimental operations
Al Hammadi for Maintenance & Operations	1010374273	Riyadh	No activity

* On February 7, 2016, the Company announced an electrical contact incident in the electricity circuit breakers room at the basement of Al Hammadi Hospital, Olaya branch building. Accordingly, the Company evacuated all patients until completion of the maintenance works. The Company obtained all required approvals from the concerned authorities to re-open the Olaya branch after the completion of the maintenance work on August 7, 2016. The Company announced on Tadawul that the estimated financial effect resulting from the period of closing the hospital to the re-opening was approximately Saudi Riyals 20 million. The Company actually incurred a total amount of approximately Saudi Riyals 11.5 million as maintenance and safety works cost as a result of this incident, which was capitalized as part of property and equipment during the year ended December 31, 2016. The company was compensated Saudi Riyals 6.8 million for this fire by the insurance company on July 5, 2017.

Going concern

The Board of Directors has made an assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future for a period of at least 12 months from the approval of the financial statements. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Al Hammadi Company for Development and Investment (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. Summary of significant accounting policies

2.1 Basis of preparation

The accompanying financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the Saudi Organization of Certified Public Accountants (SOCPA).

For all periods up to and including the year ended 31 December 2016, Al-Hammadi Company for Development and Investment prepared its financial statements based on the accounting standards promulgated by the local generally accepted accounting principles in Saudi Arabia "SOCPA". These financial statements for the year 2017 are the first the Company has prepared in accordance with IFRS (see note 3).

The financial statements have been prepared on a historical cost basis and are presented in the local currency of Saudi Arabia; Saudi Riyals.

The principal accounting policies applied in the preparation of these financial statements are set out below; these policies have been consistently applied to all years presented, unless otherwise states.

2.2 Current versus Non-current classification

The Company presents its assets and liabilities in the statement of financial position based on a current/non-current classification.

An assets is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the reporting period; or
- Cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current assets.

A liability is current when it is:

- Expected to be settled in the normal operating cycle;
- Held primarily for the purpose of trading;
- Due to be settled within 12 months after the reporting period; or
- When there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as non-current liabilities.

2.3 Fair value measurement

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

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

The principal or the most advantageous market must be accessible by The Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. Summary of significant accounting policies - *continued*

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or the liability, assuming that market participants act in their economic best interest.

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

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

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

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

2.4 Equity

The Company has issued ordinary shares that are classified as equity. The difference between the issue price and the par value of an ordinary share is allocated to share premium. The transaction costs incurred for the share issue are accounted for as a deduction from share premium to the extent they are incremental costs directly attributable to the share issue that would otherwise have been avoided.

2.5 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, less discounts and rebates.

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company determines it is acting as principal when it has exposure to the significant risks and rewards associated with the transaction and measures revenue as the gross amount received or receivable. When the Company does not retain the significant risks and rewards, it deems that it is acting as an agent and measures revenue as the amount received or receivable in return for its performance under the contract and excludes any amounts collected on behalf of a third party.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. Summary of significant accounting policies - *continued*

Clinic service revenues

Clinic service revenue primarily comprises fees charged for inpatient and outpatient hospital services. Services include charges for medical consultation, radiology, clinical laboratory, accommodation and physical therapy service. Clinic revenues are recognized when, and to the extent that, performance of a medical service occurs, and is measured at the fair value of the consideration received or receivable. Fees are calculated and billed based on various pricelist agreements with funders or counterparties. Al Hammadi has determined that it is acting as Principal in these arrangements as it has the responsibility for providing the medical services to the patient, it sets the prices for the clinic services which are provided, it bears the credit risk and it bears the risk of providing the medical service.

Sale of goods - Pharmacy

Sale of goods – Pharmacy represents sale of pharmaceutical and other medical products. Whilst the Company doesn't establish the prices for pharmaceutical products as the selling prices are fixed by the Ministry of Health, the Company is considered to be acting as a principal in respect of these sales because it actually provides the products and bears the inventory and credit risks. Revenue from the sale of goods – Pharmacy is therefore recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Significant risk is passed to the buyer at the point of sale.

2.6 Cost of Revenue

Cost of Revenue services rendered represents expenses directly related to the generation of revenue from healthcare services rendered, including but not limited to salaries and benefits of medical personnel, materials and supplies, utilities and other direct costs.

2.7 Administrative expenses

Administrative expenses include direct and indirect costs not specifically part of cost of revenue. Allocations between administrative expenses and cost of revenue, when required, are made on a consistent basis.

2.8 Foreign currencies

The Company's financial statements are presented in Saudi Riyals, which is the local and functional currency in Saudi Arabia.

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated as part of the hedge of the Company's net investment of a foreign operation. These are recognized in OCI until the net investment is disposed of, at which time, the cumulative amount is classified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. Summary of significant accounting policies - *continued*

2.9 Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

The Company has received interest free loans from Ministry of health with a condition to use the proceeds only for the purpose of construction of the hospital buildings. The difference between the initial carrying value of the loan (its fair value) and the proceeds received is treated as a government grant. The grant income is deferred and subsequently released in the statement of profit or loss for the same period as the depreciation of the relevant asset.

2.10 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing parts of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

Depreciation is calculated on all property and equipment other than land and capital work in progress, at the following rates calculated to write off the cost of each asset on a straight line basis over its expected useful life:

- Building 33 years.
- Equipment and tools 10 to 20 years.
- Furniture, fixtures and office equipment 4 to 10 years.
- Vehicles 4 years.

When significant parts of property and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Capital work in progress is stated at cost and is not depreciated. When commissioned, capital work in progress is transferred to the appropriate property and equipment asset category and depreciated in accordance with the Company's policies.

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

When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. Other subsequent expenditure is capitalized only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognized in the statement of profit or loss as the expense is incurred.

An item of property and equipment is de-recognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss under other operating income when the asset is de-recognized.

2. Summary of significant accounting policies - *continued*

The expected useful lives and residual values of property and equipment are reviewed annually and adjusted prospectively as appropriate. The review of the asset lives and residual values of properties takes into consideration the plans of the business and levels of expenditure incurred on an ongoing basis to maintain the properties in a fit and proper state for their ongoing use as hospitals and the forecast timing of disposal.

2.11 Impairment of non-financial assets

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

Where the carrying amount of an asset or cash generating unit (CGU) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

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

Impairment losses of continuing operations are recognized in the statement of profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to OCI. In this case, the impairment is also recognized in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

2.12 Leases

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

2. Summary of significant accounting policies - continued

The Company as a lessee

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

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

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

The Company as a lessor

Leases in which The Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term under other operating income as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

2.13 Borrowing costs

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

Borrowing costs incurred on or after the date of transition (1 January 2016) for all eligible qualifying assets are capitalized. The borrowing costs capitalized under SOCPA on qualifying assets to the date of transition to IFRS are included in the carrying amount of assets at that date.

2.14 Pre-operating expenses

Pre-operating expenses are the expenses incurred prior to the start of operations of a new business unit. These expenses are recognized in the statement of profit or loss in the period in which they occur.

2.15 Financial instruments - initial recognition and subsequent measurement

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

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. Summary of significant accounting policies - continued

i) Financial assets

Initial recognition and measurement

Financial assets in the scope of IAS 39 are classified either as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets upon initial recognition. The Company does not have any financial assets designated as available-for-sale or at fair value through profit or loss.

The classification depends on the purpose for which the investments were acquired or originated.

Following is the major asset as of the reporting date:

Accounts receivables from healthcare services are recognized initially at the transaction price deemed to be fair value at origination date. They are subsequently measured at amortized cost using the effective interest method, less any provision for impairment. The carrying value of accounts receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the profit or loss statement.

Allowance for impairment of financial assets

The Company assesses at each reporting date whether a financial asset is impaired. If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognized in the profit or loss statement.

Any subsequent reversal of an impairment loss is recognized in the profit or loss statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. When an asset is uncollectible, it is written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the profit or loss statement.

As part of its risk management, the Company uses derivative financial instruments such as interest rate swaps and caps to hedge its interest rate risks. Such derivative financial instruments were initially recognized at fair value on the date on which a contract is entered into and were subsequently re-measured at fair value. The fair value of interest rate swaps were determined by reference to market values for similar instruments. Derivatives with positive market values (unrealized gains) were included in other assets and derivatives with negative market values (unrealized losses) were included in other liabilities in the statement of financial position.

Any gains or losses arising from changes in fair value on derivatives during the year were taken directly to profit or loss as finance charges. Whilst the policy of the Company is not to apply hedge accounting, the derivatives were economic hedges of liabilities in issue and it is therefore considered appropriate to show the changes in fair value of derivatives in finance charges in the profit or loss statement.

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. Summary of significant accounting policies - continued

De-recognition of financial assets

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

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and, to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognized to the extent of its continuing involvement in it. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

ii) Financial liabilities

Initial recognition and measurement

All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. The Company's financial liabilities include trade and other payables, interest free loans from Ministry of Health from Kingdom of Saudi Arabia and borrowings from credit institutions.

Subsequent measurement

After initial recognition, profit bearing bank borrowings are subsequently measured at amortized cost using the EPR method. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the EPR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EPR. The EPR amortization is included in finance costs in the statement of profit or loss.

De-recognition of financial liability

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

iii) Offsetting of financial instruments

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

2. Summary of significant accounting policies - continued

2.16 Inventories

Inventories are measured at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition are determined on a weighted average basis. Net realizable value is based on estimated selling price less any further costs expected to be incurred to disposal.

Rebates from Suppliers

The Pharmacy segment receives rebates in the ordinary course of business from a number of its suppliers of pharmaceutical products, in accordance with contractual arrangements in place with specific suppliers. Rebates are accounted for once approval has been received from the supplier following the negotiations which have taken place with them. Rebates receivable are accounted for as a deduction from the cost of purchasing pharmaceutical goods, once the rebate has been approved by the supplier on the basis under IAS 18 that the probability of inflow is not sufficiently certain and the amounts cannot be reliably measured until that point. When rebates have been agreed in advance, for example when it has been agreed that a certain rebate will be applied to the purchase of specific goods for a set period of time rather than just to a specific one off purchase, then the rebate is recognized as a reduction in the purchase price as soon as the goods are purchased. When rebates are offered based upon the volume purchased and it is probable that the rebate will be earned and the amount can be estimated reliably, then the discount is recognized as a reduction in the purchase price when the goods are purchased and the assessment is reviewed on an ongoing basis. Rebates receivable are accounted for on a net basis, being set off against the accounts payables to which they relate, as they are a reduction in the amount owed to suppliers in respect of pharmaceutical products purchased.

2.17 Cash and cash equivalents

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

For the purpose of preparing the Company's financial statements, cash flows, cash and cash equivalents consist of cash in hand and at banks and other short-term liquid investments, if any, with original maturities of 3 months or less from purchase date.

2.18 Provisions

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

2.19 Employees' termination benefits

The Company operates a defined benefit plan for employees in accordance with Saudi Labor Law as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia. The cost of providing the benefits under the defined benefit plan is determined using the projected unit credit method.

Re-measurements for actuarial gains and losses are recognized immediately in the statement of financial position with a corresponding credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. Summary of significant accounting policies - *continued*

Past service cost are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date the Company recognizes related restructuring costs

Net special commission income is calculated by applying the discount rate to the net defined benefit liability. The Company recognizes the following changes in the net defined benefit obligation in the statement of profit or loss:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements (under administrative expenses)
- Net special commission expense or income (under borrowing facility cost and charges)

2.20 Zakat

The Company is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Zakat provision is estimated and charged to the statement of profit or loss. Any difference in the estimations is recorded when the final assessment is approved at which time the provision is adjusted. On the finalization of Zakat assessment, additional Zakat due will be accounted for in the year in which the assessment is finalized.

2.21 Trade payables and accruals

Liabilities are recognized for amounts to be paid in the future for goods and services received whether billed by the supplier or not. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

3. First-time adoption of IFRS

For all periods up to and including the year ended 31 December 2016, Al-Hammadi Company for Development and Investment prepared its financial statements based on the accounting standards promulgated by the Saudi Organization of Certified Public Accountant "SOCPA". These financial statements for the year 2017 are the first the Company has prepared in accordance with IFRS.

Accordingly, the Company has prepared financial statements that comply with IFRS "as endorsed by SOCPA", together with the comparative period data for the year ended 31 December 2016, as described in the summary of significant accounting policies. In preparing the financial statements, the Company's opening statement of financial position was prepared as at 1 January 2016, the Company's date of transition to IFRS. This note explains the principal adjustments made by the Company in restating its Saudi GAAP financial statements, including the statement of financial position as at 1 January 2016 and the financial statements for the year ended 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. First-time adoption of IFRS - continued

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Company has applied the following exemptions:

- The Company has applied the transitional provisions of IFRIC 4 *Determining whether an Arrangement Contains a Lease* and has assessed all arrangements based upon the conditions in place as at the date of transition.
- The Company has applied the requirements in IAS 39 and IAS 20 prospectively to government loans existing at the date of transition to IFRS, and has used its Saudi GAAP carrying amount of the loan at the date of transition as the carrying amount of the loan in the opening IFRS financial statement of financial position

Estimates

The estimates at 1 January 2016 and 31 December 2016 are consistent with those made for the same dates in accordance with Saudi GAAP (after adjustments to reflect any differences in accounting policies) apart from the following items where application of Saudi GAAP did not require estimation:

- Pensions and other post-employment benefits;

The estimates used by the Company to present these amounts in accordance with IFRS "as endorsed by SOCPA" reflect conditions at 1 January 2016, the date of transition to IFRS, and as at 31 December 2016.

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. First-time adoption of IFRS - *continued*

	Note	Saudi GAAP as at 1 January 2016 SAR	Re-measurements SAR	IFRS as at 1 January 2016 SAR
Assets				
Non-current assets				
Property and equipment		1,555,688,017	-	1,555,688,017
Current assets				
Inventories		27,222,231	-	27,222,231
Trade receivables		248,877,852	-	248,877,852
Prepayments and other assets		14,135,766	-	14,135,766
Amounts due from related parties		546,895	-	546,895
Cash and cash equivalents		89,343,477	-	89,343,477
		380,126,221	-	380,126,221
Total assets		1,935,814,238	-	1,935,814,238
Equity and liabilities				
Equity				
Share capital		1,200,000,000	-	1,200,000,000
Statutory reserve		14,592,866	-	14,592,866
Retained earnings	B	171,535,481	1,730,300	173,265,781
Total equity		1,386,128,347	1,730,300	1,387,858,647
Non-current liabilities				
Long-term loans	A	275,739,325	(44,012,842)	231,726,483
Employees' termination benefits	B	32,591,996	(1,730,300)	30,861,696
Government grants	A	-	38,843,856	38,843,856
		308,331,321	(6,899,286)	301,432,035
Current liabilities				
Trade payables		36,365,075	-	36,365,075
Accrued expenses and other liabilities	A	44,397,286	(626,267)	43,771,019
Amounts due to related parties		559,630	-	559,630
Long-term loans	A	150,000,000	2,834,969	152,834,969
Government grants	A	-	2,960,284	2,960,284
Zakat payable		10,032,579	-	10,032,579
		241,354,570	5,168,986	246,523,556
Total liabilities		549,685,891	(1,730,300)	547,955,591
Total equity and liabilities		1,935,814,238	-	1,935,814,238

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. First-time adoption of IFRS - *continued*

	Note	Saudi GAAP as at 31 December 2016 SAR	Re-measurements SAR	IFRS as at 31 December 2016 SAR
Assets				
Non-current assets				
Property and equipment	A	<u>1,647,674,677</u>	<u>2,873,904</u>	<u>1,650,548,581</u>
Current assets				
Inventories		32,104,516	-	32,104,516
Trade receivables		430,470,509	-	430,470,509
Prepayments and other assets		16,503,711	-	16,503,711
Amounts due from related parties		248,309	-	248,309
Cash and cash equivalents		<u>12,606,666</u>	<u>-</u>	<u>12,606,666</u>
		<u>491,933,711</u>	<u>-</u>	<u>491,933,711</u>
Total assets		<u>2,139,608,388</u>	<u>2,873,904</u>	<u>2,142,482,292</u>
Equity and liabilities				
Equity				
Share capital		1,200,000,000	-	1,200,000,000
Statutory reserve		22,060,800	-	22,060,800
Retained earnings	A, B	<u>148,746,889</u>	<u>(1,160,062)</u>	<u>147,586,827</u>
		<u>1,370,807,689</u>	<u>(1,160,062)</u>	<u>1,369,647,627</u>
Total equity				
Non-current liabilities				
Long-term loans	A	527,191,513	(156,414,477)	370,777,036
Employees' termination benefits	B	40,483,691	102,496	40,586,187
Government grants	A	-	148,471,675	148,471,675
		<u>567,675,204</u>	<u>(7,840,306)</u>	<u>559,834,898</u>
Current liabilities				
Trade payables		37,775,637	-	37,775,637
Accrued expenses and other liabilities	A	50,653,540	(3,003,143)	47,650,397
Amounts due to related parties		431,448	-	431,448
Short-term revolving loan		50,000,000	-	50,000,000
Long-term loans	A	50,000,000	11,428,509	61,428,509
Government grants	A	-	3,448,906	3,448,906
Zakat payable		<u>12,264,870</u>	<u>-</u>	<u>12,264,870</u>
		<u>201,125,495</u>	<u>11,874,272</u>	<u>212,999,767</u>
Total liabilities		<u>768,800,699</u>	<u>4,033,966</u>	<u>772,834,665</u>
Total equity and liabilities		<u>2,139,608,388</u>	<u>2,873,904</u>	<u>2,142,482,292</u>

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. First-time adoption of IFRS - *continued*

	Note	Saudi GAAP for the year ended 31 December 2016 SAR	Re-measurements SAR	IFRS for the year ended 31 December 2016 SAR
Clinics services revenue	C	606,240,990	(89,113,741)	517,127,249
Sale of goods - Pharmacy		-	89,113,741	89,113,741
Total revenues		<u>606,240,990</u>	<u>-</u>	<u>606,240,990</u>
Cost of sales	B	(364,692,467)	577,719	(364,114,748)
Gross profit		<u>241,548,523</u>	<u>577,719</u>	<u>242,126,242</u>
Administrative expenses	B	(143,457,635)	144,430	(143,313,205)
Other operating income	A	1,229,520	2,960,283	4,189,803
Operating profit		<u>99,320,408</u>	<u>3,682,432</u>	<u>103,002,840</u>
Finance charges	A, B	(13,641,066)	(5,406,625)	(19,047,691)
Profit before Zakat		<u>85,679,342</u>	<u>(1,724,193)</u>	<u>83,955,149</u>
Zakat expense		(11,000,000)	-	(11,000,000)
Profit for the year		<u>74,679,342</u>	<u>(1,724,193)</u>	<u>72,955,149</u>
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:</i>				
Re-measurement losses on defined benefit plans		-	(1,166,169)	(1,166,169)
Total other comprehensive loss not to be reclassified to profit or loss in subsequent periods		<u>-</u>	<u>(1,166,169)</u>	<u>(1,166,169)</u>
Total comprehensive income for the year		<u>74,679,342</u>	<u>(2,890,362)</u>	<u>71,788,980</u>
Earnings per share (Saudi Riyals):				
Basic and diluted profit for the year attributable to ordinary equity holders		<u>0.62</u>	<u>(0.02)</u>	<u>0.60</u>

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. First-time adoption of IFRS - *continued*

Notes to the reconciliation of equity as at 1 January 2016 and 31 December 2016 and total comprehensive income for the year ended 31 December 2016

The transition from Saudi GAAP to IFRS has not had a material or significant impact on the statement of cash flows.

Adjustments that impacted equity:

(A) Loans from the Ministry of Finance

As explained in Note 2.9, the Company has recorded a government grant after fair valuing its interest free loan from the Ministry of Finance.

The impact arising from the above changes are summarized as follows:

Balance sheet:

	31 December 2016 SAR	1 January 2016 SAR
Property and equipment Increase in asset (i)	<u>2,873,904</u>	<u>-</u>
Long term loans (non-current liabilities) Decrease in liability (ii)	<u>156,414,477</u>	<u>44,012,842</u>
Government grants (non-current liabilities) (Increase) in liability (ii)	<u>(148,471,675)</u>	<u>(38,843,857)</u>
Accrued expenses and other liabilities Decrease in liability (ii)	<u>3,003,143</u>	<u>626,267</u>
Long term loans (current liabilities) (Increase) in liability (ii)	<u>(11,428,509)</u>	<u>(2,834,969)</u>
Government grants (current liabilities) (Increase) in liability (ii)	<u>(3,448,906)</u>	<u>(2,960,284)</u>
Adjustment to retained earnings - (decrease)	<u>(1,057,566)</u>	<u>-</u>

Statement of profit or loss:

	31 December 2016 SAR
Other operating income Release of government grant (ii)	<u>2,960,283</u>
Finance charges Interest on loan (ii)	<u>(4,017,849)</u>
Adjustment to profit for the year - (decrease)	<u>(1,057,566)</u>

(i) Represents capitalization of interest on hospital under construction (Al-Nuzha, see Note 11).

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. First-time adoption of IFRS continued

- (ii) Represents recognition of a government grant that represents the fair value of the interest free loans from the Ministry of Finance for the construction of hospital buildings and purchase of related medical equipment. The release of government grant and interest in the statement of profit or loss is for the hospital (AlSuwaidi) that was capitalized during August 2015. The current / non-current split is based on the application of Note 2.2. The accrued finance charge has also been reclassified from accrued expenses and other liabilities to long-term loans.

(B) Employees' termination benefits

Under Saudi GAAP Standards, the Company recorded its liability based on regulatory requirements. In order to determine the liability under IFRS Standards, the Company performed detailed actuarial valuation. The impact arising from the change is summarized as follows:

Balance sheet:

	31 December 2016 SAR	1 January 2016 SAR
Employees' termination benefits (Increase) / decrease in liability	(102,496)	1,730,300
Adjustment to retained earnings - decrease/(increase)	<u>(102,496)</u>	<u>1,730,300</u>

Statement of comprehensive income:

	31 December 2016 SAR
Cost of revenue	
Current service costs	577,719
Administrative expenses	
Current service costs	144,430
Finance charges	
Interest expense	(1,388,776)
Adjustment to profit for the year - (decrease)	<u>(666,627)</u>
Re-measurement loss of employee's termination benefits	(1,166,169)
Adjustment to comprehensive income for the year - (decrease)	<u>(1,166,169)</u>

Adjustments that did not impact equity:

(C) Sale of goods - pharmacy

The Company has reclassified the revenue from sale of pharmacy good as a separate line item in the statement of profit or loss for better presentation. This reclassification has no impact on the retained earnings.

4. Significant accounting judgments, estimates, and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. Significant accounting judgments, estimates and assumptions - *continued*

disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

Defined benefit plans (pension benefits)

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

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are removed from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and pension increases are based on expected future inflation rates for the respective countries.

Provision for doubtful debts

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

For significant individual amounts, assessment is made at individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering the past recovery rates.

Impairment of non-financial assets

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

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. Significant accounting judgments, estimates and assumptions - continued

The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Financing lease commitments — as a lessee

The Company has entered into lease arrangements with vendors. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term constituting a substantial portion of the economic life of the leased asset and the present value of the minimum lease payments amounting to substantially all of the fair value of the leased asset, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as finance leases.

5. Segment Information

The Company's operations are principally comprised of one operating segment, which is the health-care services as of the date of the accompanying financial statements. Accordingly, segment information is not applicable. Furthermore, all of the Company's operations are conducted in Saudi Arabia.

6. Clinics services revenue, net

	2017 SAR	2016 SAR
Medical services	355,344,633	350,919,103
In-patients rooms' charges	132,292,687	77,937,098
Clinical laboratory	128,510,110	95,958,739
Radiology	91,008,082	69,276,932
Physical therapy	8,789,358	19,697,760
Unbilled revenues	340,087	6,259,783
	<u>716,284,957</u>	<u>620,049,415</u>
Discounts	(125,440,812)	(102,922,166)
	<u>590,844,145</u>	<u>517,127,249</u>

7. Cost of revenue

	Note	2017 SAR	2016 SAR
Salaries and related benefits		256,661,598	206,868,558
Medical costs		128,599,979	90,640,561
Depreciation	11	42,434,076	42,697,920
Utilities bills		12,061,141	11,201,289
Repairs and maintenance		7,108,518	4,056,008
Others		2,806,497	8,650,412
		<u>449,671,809</u>	<u>364,114,748</u>

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

8. Administrative expenses

	Note	2017 SAR	2016 SAR
Salaries and related benefits		52,399,365	61,350,378
Provision for doubtful debt		39,269,365	46,890,675
Depreciation	11	10,608,519	10,674,480
Rents		9,524,381	7,138,652
Fuel		2,455,034	766,278
Repairs and maintenance		2,293,622	2,832,987
Insurance		1,817,482	1,812,818
Professional services		466,000	1,230,750
Donation		412,750	1,478,763
Other		8,486,760	9,137,424
		<u>127,733,278</u>	<u>143,313,205</u>

9. Other operating income

	2017 SAR	2016 SAR
Insurance fire claim	6,809,837	-
Rental income	498,600	138,150
Government grants released	3,658,693	2,960,283
Other income	395,934	1,091,370
	<u>11,363,064</u>	<u>4,189,803</u>

10. Earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit for the year attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is the same as the regular or basic earnings per share as the Company does not have any convertible securities or diluted instruments to exercise.

The following table reflects the income and share data used in the basic and diluted EPS computations:

	2017 SAR	2016 SAR
Profit for the year	<u>107,964,805</u>	<u>72,955,149</u>
Weighted average number of ordinary shares	<u>120,000,000</u>	<u>120,000,000</u>
Basic and diluted earnings per share	<u>0.90</u>	<u>0.61</u>

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

11. Property and equipment

	Lands	Buildings	Equipment and tools	Furniture, fixtures and office equipment	Vehicles	Construction in progress	Total
Cost:							
At 1 January 2016	262,396,467	689,873,450	349,440,423	84,129,494	5,308,133	470,078,575	1,861,226,542
Additions	-	15,859,935	4,437,927	5,087,527	79,250	122,787,822	148,252,461
Disposals	-	-	(5,563,729)	-	(153,000)	-	(5,716,729)
At 31 December 2016	262,396,467	705,733,385	348,314,621	89,217,021	5,234,383	592,866,397	2,003,762,274
Additions	-	848,841	4,523,310	2,061,200	-	192,806,403	200,239,754
At 31 December 2017	262,396,467	706,582,226	352,837,931	91,278,221	5,234,383	785,672,800	2,204,002,028
Accumulated Depreciation:							
At 1 January 2016	-	147,667,168	111,951,812	42,574,810	3,344,735	-	305,538,525
Charge for the year	-	20,869,843	25,143,414	6,560,856	798,287	-	53,372,400
Disposals	-	-	(5,563,728)	-	(133,504)	-	(5,697,232)
At 31 December 2016	-	168,537,011	131,531,498	49,135,666	4,009,518	-	353,213,693
Charge for the year	-	21,156,815	24,380,619	6,948,938	556,223	-	53,042,595
At 31 December 2017	-	189,693,826	155,912,117	56,084,604	4,565,741	-	406,256,288
Net book value:							
At 31 December 2017	262,396,467	516,888,400	196,925,814	35,193,617	668,642	785,672,800	1,797,745,740
At 31 December 2016	262,396,467	537,196,374	216,783,123	40,081,355	1,224,865	592,866,397	1,650,548,581
At 1 January 2016	262,396,467	542,206,282	237,488,611	41,554,684	1,963,398	470,078,575	1,555,688,017

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

11. Property and equipment *continued*

Land and buildings

Land and buildings illustrated above basically include a part of a land with a value of SR 152.5 million, pledged as a collateral for a long-term loan from the Ministry of Finance.

Assets under construction

The Company started the construction of a hospital project in 2012. This project is completed in February 2018. The carrying amount of the hospital project, including the land of the project, at 31 December 2017 was SR 825 million (31 December 2016: SR 748.5 million, and 1 January 2016: SR 469.3). The facilities under construction will be recognized in 'buildings' and other assets categories after completion.

The construction work in progress is financed through the Initial Public Offering "IPO" proceeds, loan from Ministry of Finance and loans from local commercial banks. The amount of borrowing costs capitalized during the year ended 31 December 2017 was SR 5.8 million (31 December 2016: SR 3.2 million, and 1 January 2016: SR 2.3 million). The rate used to determine the amount of borrowing costs eligible for capitalization was 2.95%, which is the effective interest rate of the specific borrowing.

In the opinion of management, there has been no impairment in the carrying value of the Company's property and equipment as at 31 December 2017 (31 December 2016: SR Null, and 1 January 2016: SR Null).

The allocation of depreciation expenses between cost of revenue and administrative expenses is as follows:

	2017 SAR	2016 SAR
Cost of revenue	42,434,076	42,697,920
Administrative expenses	10,608,519	10,674,480
31 December	53,042,595	53,372,400

12. Inventories

	2017 SAR	2016 SAR	As at 1 January 2016 SAR
Pharmaceuticals and cosmetics	10,933,762	11,396,563	12,951,325
Medical equipment and consumables	16,288,866	18,183,199	12,171,774
Non-medical tools and supplies	2,238,114	2,112,293	1,953,492
Spare parts and consumables not for sale	260,947	412,461	145,640
	<u>29,721,689</u>	<u>32,104,516</u>	<u>27,222,231</u>

13. Trade receivables

	2017 SAR	2016 SAR	As at 1 January 2016 SAR
Trade receivables – billed	286,935,263	466,632,832	248,655,937
Trade receivables not yet billed	340,087	6,259,783	22,141,905
	<u>287,275,350</u>	<u>472,892,615</u>	<u>270,797,842</u>
Provision for doubtful debts	<u>(34,839,047)</u>	<u>(42,422,106)</u>	<u>(21,919,990)</u>
	<u>252,436,303</u>	<u>430,470,509</u>	<u>248,877,852</u>

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

13. Trade receivables *continued*

	Total SAR	Neither past due nor impaired SAR	30 - 60 days SAR	61 - 90 days SAR	91 - 180 days SAR	More than 180 days SAR
31 December 2017	286,935,263	72,417,714	33,934,473	28,326,880	143,123,898	9,132,298
31 December 2016	466,632,832	128,632,077	33,366,816	13,778,002	145,395,705	145,460,232
As at 1 January 2016	248,655,937	45,112,246	39,095,010	20,686,074	137,913,279	5,849,328

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of Company to obtain collateral over receivables and they are therefore unsecured. Amounts written off during the year relate to individually identified accounts that are considered to be irrecoverable.

A majority of the receivables that are past due but not impaired are from government-linked entities which are inherently slow payers due to their long invoice verification and approval of payment procedures. Payments continue to be received from these customers and accordingly the risk of non-recoverability is considered to be low.

As at 31 December 2017, approximately 95 % of the Company's trade receivables' balance was due from various governmental and insurance entities (31 December 2016: 95%, 1 January 2016: 92%).

The Company's credit terms require receivables to be repaid within 30-90 days depending on the type of customer, which is in line with healthcare industry. Due to short credit period offered to customers, a significant amount of trade receivables are neither past due nor impaired.

The summary for the movement of provision for doubtful debts is as follows:

	2017 SAR	2016 SAR
1 January	42,422,106	21,919,990
Additions	39,269,365	46,890,675
Bad debts written off	(46,852,424)	(26,388,559)
31 December	34,839,047	42,422,106

14. Prepayments and other assets

	2017 SAR	2016 SAR	As at 1 January 2016 SAR
Advances to suppliers	37,280,343	11,406,196	9,932,897
Prepaid rents, medical insurance and visa	5,965,721	2,572,425	2,477,069
Margin of L/G and L/C	1,227,917	-	-
Recoverable deposits	227,457	227,457	144,662
Advances to employees	-	2,098,178	1,196,181
Other	57,454	199,455	384,957
	44,758,892	16,503,711	14,135,766

**Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

15. Related party transactions and balances

The Company in the normal course of business carries on business with other enterprises and individuals that fall within the definition of a related party contained in IFRS. These transactions are carried out in normal course of the business and are measured at exchange amounts, being the amounts agreed by both parties. The transactions are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2017, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2016: Null, 1 January 2016: Null). This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

During the ordinary course of business, the Company engaged in several significant transactions with related parties (i.e., major shareholders of the Company) as illustrated below:

	2017	2016
	SAR	SAR
Completed works for capital work in progress from a construction company owned by a shareholder	192,255,936	120,634,945
Compensation to key management personnel	5,168,993	5,082,593
Purchased from a company owned by a shareholder	3,226,113	3,523,271
Rental expense paid to relatives of shareholders	630,000	630,000
Clinical services rendered to shareholders	389,279	221,145
Rental expense paid to shareholders	4,547,000	855,000

Significant year-end balances from transactions with related parties are as follows:

	2017	2016	As at 1 January 2016
	SAR	SAR	SAR
Amounts due from related parties	<u>389,280</u>	<u>248,309</u>	<u>546,895</u>
Amounts due to related parties	<u>262,829</u>	<u>431,448</u>	<u>559,630</u>

16. Cash and cash equivalents

	2017	2016	As at 1 January 2016
	SAR	SAR	SAR
Cash in hand	753,495	1,081,131	1,613,523
Cash at banks	177,521,806	11,525,535	87,729,954
	<u>178,275,301</u>	<u>12,606,666</u>	<u>89,343,477</u>

17. Share capital

Share capital of the Company is 1,200,000,000 SR consists of 120,000,000 fully paid ordinary shares with a par value of SR 10 (31 Dec., 2016: SR 1,200,000,000, 1 January 2016: SR 1,200,000,000).

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

18. Statutory reserve

In accordance with Saudi Regulations for Companies and the Company's By-Laws, 10% of the annual net income is required to be transferred to a statutory reserve until it reserves equals 30% of the capital. This statutory reserve is not available for distribution to shareholders currently. During the year ended December 31, 2017 an amount of Saudi Riyals 10,796,481, (31 December 2016: SAR 7,467,934), was transferred to the statutory reserve in accordance with Article No. 98 of Saudi Regulations for Companies.

19. Dividends

At its meeting held on 8 Rabea II 1439H (corresponding to 26 December 2017), the Company's Ordinary General Meeting approved the recommendation of the Board of Directors on its meeting held on 22 Rabea Awal (corresponding to 10 December 2017) to distribute a cash dividend of SR 90 million for 2017 at 0.75 riyals (75 halalas) per share (2016: Null).

20. Employees' Termination Benefits

The following tables summarize the components of end of service benefits recognized in the statement of profit or loss and amounts recognized in the statement of comprehensive income and statement of financial position:

a) Amount recognized in the statement of financial position:

	2017 SAR	2016 SAR	1 January 2016 SAR
Present value of defined benefit obligation	<u>50,100,456</u>	<u>40,586,187</u>	<u>30,861,696</u>

b) Benefit expense (recognized in statement of profit or loss):

	2017 SAR	2016 SAR
Current service cost	12,925,677	10,739,691
Special commission cost	1,724,913	1,388,776
Benefit expense	<u>14,650,590</u>	<u>12,128,467</u>

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

20. Employees' Termination Benefits - *continued*

c) *Movement in the present value of defined benefit obligation:*

	2017 SAR	2016 SAR	1 January 2016 SAR
Present value of defined benefit obligation at beginning of the year	40,586,187	30,861,696	18,953,850
Charge recognized in statement of profit or loss:			
Current service cost	12,925,677	10,739,691	16,039,540
Special commission cost	1,724,913	1,388,776	-
Actuarial loss on defined benefit plan recognized in the statement of comprehensive income	519,721	1,166,169	(1,730,300)
Benefits paid	(5,656,042)	(3,570,145)	(2,401,394)
Present value of defined benefit obligation at end of the year	<u>50,100,456</u>	<u>40,586,187</u>	<u>30,861,696</u>

d) *Principal actuarial assumptions:*

	2017 SAR	2016 SAR	1 January 2016 SAR
Discount rate	4.5 %	4.5 %	4.5 %
Salary increase rate	3 %	3 %	3 %
Retirement age	60 years	60 years	60 years

21. Government grants

	2017 SAR	2016 SAR
At 1 January	151,920,581	41,804,140
Received during the year	24,459,551	113,076,724
Government grants release	(3,658,693)	(2,960,283)
At 31 December	<u>172,721,439</u>	<u>151,920,581</u>

	2017 SAR	2016 SAR	As at 1 January 2016 SAR
Current	3,952,401	3,448,906	2,960,284
Non-current	168,769,038	148,471,675	38,843,856
	<u>172,721,439</u>	<u>151,920,581</u>	<u>41,804,140</u>

On July 2015, the Company obtained a free interest loan from the Ministry of Finance to fund the construction of the new hospital in Al Nuzha area and the purchase of the indispensable medical and non-medical equipment. The conditions and contingencies attached to these grants has been met.

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

22. Commitments and contingencies

Operating lease commitments – the Company as a lessee

The Company has entered into commercial leases on housing accommodation. The lease terms are between 2016 and 2018 years. The Company has the option, under some of its leases, to lease the assets for additional terms of 2019 to 2021 years. Future rental payments (rentals payable) under non-cancellable operating leases are:

	2017 Million SR	2016 Million SR	As at 1 January 2016 Million SR
2017	–	3.7	1.3
2018	13.1	1.1	0.25
2019	10.9	0.95	0.12

Operating lease commitments – the Company as a lessor

The Company has entered into contractual arrangements whereby it provides certain trademarks a particular space within its premises for pre-specified rental payments. These agreements take the form of an operating lease that include contingent rents to be recognized as income during the period.

Future rentals receivable under non-cancellable operating leases are:

	2017 SAR	2016 SAR	As at 1 January 2016 SAR
Within one year	498,600	138,150	1,676,350
After one year but not more than five years	6,248,000	6,248,000	6,688,000
More than five years	7,810,000	7,810,000	8,360,000

23. Long-term loans

	2017 SAR	2016 SAR	1 January 2016 SAR
Loans from Ministry of Finance	195,704,303	137,881,732	47,061,452
Loans from commercial banks	321,602,077	344,323,813	337,500,000
	517,306,380	482,205,545	384,561,452
Current portion	40,000,000	111,428,509	152,834,969
Non-current portion	477,306,380	370,777,036	231,726,483

23.1 Loan from Ministry of finance

On 18 September 2013, The Company obtained a loan from the Ministry of Finance to fund the construction of the new hospital in Al-Suwaidi area and the purchase of the indispensable medical and non-medical equipment. This loan qualifies to be considered as government grant because the Ministry of Finance represent a governmental body and provides the Company with a zero interest loan. The value of the loan is 149.1 million SR. The Company has utilized it in full as at 31 December 2017 (31 December 2016: SAR 144.2 million, and 1 January 2016: SAR 88.2 million). The installments are determined in light of how much of the total value of the grant is actually spent at the end of the duration of this agreement after dividing the total disbursements on twenty equal annual installments. The maturity of the first installment will be after five years from the date of signing the arrangement. This loan is in Saudi Riyals without any financing commissions and is collateralized by a mortgage of the property and equipment of Al-Hammadi Hospital in Al-Suwaidi.

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

23. Long-term loans - continued

On 19 January 2015, the Company signed another financing agreement with the Ministry of Finance to fund the building of the housing compound related to Al-Suwaidi Hospital project. The value of the loan is SR 27.5 million of which the Company has utilized it in full as at 31 December 2017 (31 December 2016: SR 27.5 million, and 1 January 2016: Null). The loan is to be repaid over twenty equal annual installments after a grace period of five years.

On 9 July 2015, the Company signed a third financing agreement with the Ministry of Finance to fund part of the construction and furnishing costs of the hospital in Al-Nuzha. This loan amounted SR 197.6 million and does not carry any financing commissions of which the Company has utilized SR 182.9 million as at 31 December 2017 (31 December 2016: SR Null, 1 January 2016: Null). The loan is to be repaid over twenty equal annual installments after a grace period of five years.

23.2 Loan from commercial banks

The maturities of the long-term loans are as follow:

	2017 SAR	2016 SAR	1 January 2016 SAR
2016	-	-	262,500,000
2017	-	287,500,000	75,000,000
2018	40,000,000	16,823,813	-
2019	144,000,000	40,000,000	-
After that	<u>137,602,077</u>	-	-
	<u>321,602,077</u>	<u>344,323,813</u>	<u>337,500,000</u>

During the year ended 31 December 2017, the Company capitalized financial charges amounted to SR 5.8 million (31 December 2016: SR 3.2 million, and 1 January 2016: SR 2.3 million). Finance expense charged for the year amounted to SR 19.6 million (31 December 2016: SR 19 million).

24. Zakat

24.1 Components of Zakat base:

The significant components of the Company's Zakat base, which are subject to certain adjustments under Zakat and income tax regulations endorsed and followed in Saudi Arabia are as follows:

	2017 SAR	2016 SAR
Calculation of Zakat base:		
Shareholders' equity at the beginning of the year	1,369,647,627	1,386,128,347
Non-current assets	(1,798,006,686)	(1,738,087,138)
Non-current liabilities and others	731,693,088	666,312,420
Adjusted net income	<u>180,792,068</u>	<u>150,593,213</u>
Estimated Zakat base for the Company	<u>484,126,097</u>	<u>464,946,842</u>
Higher of Zakat base or adjusted net income	<u>484,126,097</u>	<u>464,946,842</u>
Zakat at 2.5%	<u>12,103,152</u>	<u>11,623,672</u>

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

24. Zakat - continued

24.2 Provision for Zakat:

	2017 SAR	2016 SAR
Balance as at January 1	12,264,870	10,032,579
Provision for the year	12,103,152	11,000,000
Adjustments related to prior years	2,947,325	-
Payments during the year	<u>(15,212,195)</u>	<u>(8,767,709)</u>
Balance as at December 31	<u>12,103,152</u>	<u>12,264,870</u>

24.3 Status of final assessment (as at 31 December 2017):

The Company has filed zakat returns on the basis of its own financial statements with the GAZT for all years up to 31 December 2016. It has obtained final zakat assessments from GAZT for all years through the year ended 31 December 2012.

25. Financial assets and financial liabilities

Financial instruments risk management objectives and policies

The main financial instruments carried on the Company's statement of financial position include cash and cash equivalents, accounts receivables and other current assets, due from related parties, accounts payables, loans, due to related parties, accrued liabilities and other current liabilities. The main purpose behind the Company's financial liabilities is to finance the operations and to provide guarantees to support the operations.

The Company's activities exposed it to various risks. These risks are: Market risk (which includes: Currency risk, fair value and cash flow interest rate risks and price risk), Credit risk and Liquidity risk. The Company's senior management oversees the management of these risks. The Company's senior management is supported by a financial risk committee that advises on financial risks and the appropriate financial risk governance framework for the Company. The financial risk committee provides assurance to the Company's senior management that the Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies and group risk appetite. The board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

Market Risk

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

Financial instruments affected by market risk include: loans, borrowings and deposits.

Currency Risk

It is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals and US Dollars. As the Saudi Riyal is pegged to US Dollar, the Company does not have significant exposure to currency risk. The Company has also some transactions in EURO which were not significant as at 31 December 2017 (31 December 2016 and 1 January 2016).

Fair value and cash flow interest rate risks: the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial positions and cash flows. The Company monitors the

Al Hammadi Company for Development and Investment
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

25. Financial assets and financial liabilities - continued

commission rate fluctuations on a continuous basis and acts accordingly. The Company's commission rates principally relate to its borrowings and are subject to change on periodic basis.

Price Risk

Price risk is 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 Company is currently not exposed to price risk as it has no investments in marketable securities.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company places its cash with banks that have sound credit ratings. Accounts receivables and due from related parties are carried net of provision for doubtful debts.

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 a 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.

26. Standards issued but not yet effective

The standards that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial instruments

IFRS 9 was issued in July 2014, the standard includes the following:

- a) Requirements of the impairment of financial assets.
- b) Limited adjustments on classification and measurement requirements.

The standards contains requirements in the following areas:

- **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics.
- **Impairment:** The standard introduces an 'expected credit loss' model for the measurement of the impairment of financial assets.
- **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

26. Standards issued but not yet effective - *continued*

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to 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 principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and 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.

IFRS 16 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-statement of financial position model similar to the accounting for finance leases under IAS 17.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 01 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

Al Hammadi Company for Development and Investment (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

27. Subsequent events

- The Company got Ministry of Health approval on 14/05/1439H corresponding to 31/01/2018G to commence the commercial run of the AlHammadi Hospital Nuzha Branch. Whereas, all required medical and construction systems tests were successfully completed, and all required medical and administrative staff have been provided. Accordingly, AlHammadi Hospital Nuzha Branch started accepting patients on 27/05/1439H corresponding to 13/02/2018G. It is worth noting that the Company will start operating 120 beds and will gradually increase the number of utilized beds.

The Management expects the financial impact of the operation of AlHammadi Hospital Nuzha Branch during the year 2018G to be as follows:

1. Increase in number of outpatient clinics from 138 clinic to 202 clinic.
 2. Increase in beds capacity from 728 bed to 1378 bed.
 3. Full financial impact shall start in Q1 2018.
 4. Growth in total revenue by 10%.
 5. Estimated negative EBITDA (operating losses before depreciation and amortization) amounting to SAR 18 million for Al Hammadi Hospital Nuzha Branch, with an expected breakeven in Q4 2019.
- The Company signed the Share Purchase Agreement with Medical Support Services Company (the Target) on 14/05/1439H corresponding to 31/01/2018 to acquire 100% equity in the Target for SR 48 million. It is worth noting that there are no related parties involved in this transaction, and the acquisition will be funded using the Company internal cash flows.

The Share Purchase Agreement includes the necessary statutory, contractual arrangements and required regulatory approvals from all concerned parties, including the Ministry of Commerce and Investment, to commence the process of transferring the ownership of the shares and finalize the acquisition. The financial impact of the acquisition will show in the financial results of Q1 2018. The Company completed the acquisition and the purchase and the transfer of ownership.

28. Approval of the financial statements

The financial statements have been approved by the board of directors on 12 Rajab 1439H corresponding to 29 March 2018G.