

DALLAH HEALTHCARE HOLDING COMPANY

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE THREE MONTHS PERIOD AND YEAR ENDED
DECEMBER 31, 2016 AND
INDEPENDENT AUDITORS' LIMITED REVIEW REPORT

DALLAH HEALTHCARE COMPANY
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH AND YEAR ENDED DECEMBER 31, 2016

CONTENTS	Page
Independent auditors' limited review report	1
Interim consolidated balance sheet	2
Interim consolidated income statement	3
Interim consolidated cash flow statement	4
Interim consolidated statement of changes in shareholders' equity	5
Notes to the interim consolidated financial statements	6 – 16

INDEPENDENT AUDITORS' LIMITED REVIEW REPORT

To the Shareholders of Dallah Healthcare Holding Company
(A Saudi Joint Stock Company)

Scope of review

We have reviewed the accompanying interim consolidated balance sheet of Dallah Healthcare Company (the "Company") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2016 and the interim consolidated income statement for the three months period and year ended December 31, 2016, and the consolidated statements of cash flows and changes in shareholders' equity for the year ended, and the related notes from (1) to (10) which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required.

We conducted our limited review in accordance with Saudi Organization for Certified Public Accountants (SOCPA) standards on interim financial reporting. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of such limited review is substantially less than an audit conducted in accordance with auditing standards generally accepted in Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Review conclusion

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with generally accepted accounting principles in the Kingdom of Saudi Arabia.

For Dr. Mohamed Al-Amri & Co.



Dr. Mohamed Al-Amri
Certified Public Accountant
License Number 60



January 16, 2017 (G)
Rabi II 18, 1438 (H)

DALLAH HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

Interim consolidated balance sheet (unaudited)

(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at December 31,	
		2016	2015
Assets			
Current assets			
Cash and cash equivalents		186,556,641	93,403,056
Accounts receivable, net		286,712,978	259,493,368
Inventories, net		69,149,649	87,980,415
Prepayments and other assets, net		76,474,678	103,927,620
Due from related parties, net		844,183	825,047
		619,738,129	545,629,506
Non-current assets			
Investments	4	59,864,606	138,000,426
Investment in an associate	5	142,814,086	141,424,895
Property, plant and equipment, net	1-a	1,403,607,239	1,144,907,276
Intangible assets	1-d	19,218,785	30,666,270
		1,625,504,716	1,454,998,867
Total assets		2,245,242,845	2,000,628,373
Liabilities and shareholders' equity			
Current liabilities			
Short-term murabaha finance	6	86,841,876	82,260,866
Current maturity of long-term murabaha finance	6	71,500,000	65,583,334
Trade accounts payable		69,582,360	64,625,152
Accrued expenses and other liabilities		64,572,684	50,066,188
Due to related parties		720,078	567,657
Zakat and income tax payable		13,230,311	9,715,479
		306,447,309	272,818,676
Non-current liabilities			
Long-term murabaha finance	6	323,028,630	245,453,716
Employees' termination benefits		104,613,712	89,349,273
		427,642,342	334,802,989
Total liabilities		734,089,651	607,621,665
Shareholders' equity			
Share capital	1-c	590,000,000	590,000,000
Statutory reserve		398,251,315	398,251,315
Fair value reserve for available for sale investments		(4,642,458)	14,543,457
Retained earnings		527,544,337	390,211,936
Total shareholders' equity		1,511,153,194	1,393,006,708
Total liabilities and shareholders' equity		2,245,242,845	2,000,628,373
Contingencies and commitments	8		

The accompanying notes from 1 to 10 form an integral part of these interim consolidated financial statements.

DALLAH HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

Interim consolidated income statement (unaudited)

(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the three-month period ended December 31,		For the year ended December 31,	
		2016	2015	2016	2015
Operating revenue, net		316,241,382	276,500,661	1,162,788,987	985,441,197
Operating costs		(164,951,355)	(159,691,164)	(625,967,858)	(578,306,254)
Gross profit		151,290,027	116,809,497	536,821,129	407,134,943
Operating expenses					
Selling and marketing		(5,709,813)	(3,250,116)	(20,375,664)	(17,018,700)
General and administrative		(87,340,876)	(56,552,535)	(284,325,888)	(219,739,809)
Income from operations		58,239,338	57,006,846	232,119,577	170,376,434
Share in the profits of an associate		894,190	(475,105)	1,389,191	(475,105)
Impairment of intangible	1-d	(6000,000)	-	(11,091,000)	-
Other income, net	4.3	2,345,094	2,710,141	19,235,398	9,463,206
Financial charges		(295,033)	(1,220,785)	(1,809,233)	(4,633,556)
Income before zakat and tax		55,183,588	58,021,097	239,843,933	174,730,979
Zakat and income tax		(3,195,332)	(3,423,911)	(14,011,532)	(9,673,911)
Net income for the period		51,988,256	54,597,186	225,832,401	165,057,068
Earnings per share:					
Income from operations for the period	1-c	0.99	0.97	3.93	2.89
Net income for the period		0.88	0.93	3.83	2.80
Weighted average number of outstanding shares		59,000,000	59,000,000	59,000,000	59,000,000

The accompanying notes from 1 to 10 form an integral part of these interim consolidated financial statements.

DALLAH HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

Interim consolidated cash flow statement (unaudited)
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the Year ended December 31,	
		2016	2015
Cash flows from operating activities			
Net income for the period		225,832,401	165,057,068
Adjustments for non-cash items			
Deferred underwriting expenses write-off	1-b		4,148,353
Impairment of intangible	1-d	11,447,485	-
Depreciation of property, plant and equipment		57,524,136	56,303,377
Provision for doubtful debts, net		34,977,881	14,879,204
Provision for inventory		25,373,432	5,933,454
Provision for employees' termination benefits		37,106,015	22,699,993
Loss on sale of property, plant and equipment		276,369	2,089,659
Share in the (profits) / loss of an associate		(1,389,191)	475,105
Zakat and income tax provision		14,011,532	9,673,911
Gain on disposal of available for sale Investments	4.3	(9,416,012)	-
Changes in working capital			
Accounts receivable		(62,197,491)	(31,667,913)
Inventories		(6,542,666)	679,801
Prepayments and other assets		27,452,942	(17,898,474)
Due from related parties		(19,136)	2,400,088
Trade accounts payable		4,957,208	(4,695,329)
Accrued expenses and other liabilities		14,506,496	1,617,219
Due to related parties		152,421	(268,538)
Employees' termination benefits paid		(21,841,576)	(8,077,111)
Zakat paid		(10,496,700)	(9,044,930)
Net cash generated from operating activities		341,715,546	214,313,937
Cash flow from investing activities			
Proceeds from sale of available for sale investments	4	68,365,917	-
Additions to available for sale investments	4	-	(383,128)
Additions to investment in an associate	5	-	(141,900,000)
Additions to property, plant and equipment		(316,501,468)	(190,047,198)
Proceeds from sale of property, plant and equipment		1,000	267,061
Additions to Intangible assets		-	(3,422,270)
Net cash Used in investing activities		(248,134,551)	(335,485,535)
Cash flow from financing activities			
Proceeds of short-term murabaha finance		456,000,000	1,318,781,991
Repayments of short-term murabaha finance		(454,000,000)	(1,373,088,465)
Proceeds of long-term murabaha finance		1,215,679,077	329,037,050
Repayments of long-term murabaha finance		(1,129,606,487)	(78,000,000)
Dividends paid	7	(88,500,000)	(47,200,000)
Net cash (used in) / generated from financing activities		(427,410)	149,530,576
Net change in cash and cash equivalents			
		93,153,585	28,358,978
Cash and cash equivalents at beginning of the period		93,403,056	65,044,078
Cash and cash equivalents at end of the period		186,556,641	93,403,056
Supplementary information for non-cash transactions			
Write-off of accounts receivable bad debts		9,360,215	11,591,843
Unrealized (loss) / gain from revaluation of available for sale investments	4	(19,185,915)	1,208,281

The accompanying notes from 1 to 10 form an integral part of these interim consolidated financial statements.

DALLAH HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

Interim consolidated statement of changes in shareholders' equity
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Statutory reserve			Fair value reserve for available for sale investments	Retained earnings	Total shareholders' equity
		Share capital	Share premium	Transfers from net income			
January 1, 2016 (Audited)		590,000,000	371,142,305	27,109,010	14,543,457	390,211,936	1,393,006,708
Net income for the period		-	-	-	-	225,832,401	225,832,401
Dividends	7	-	-	-	-	(88,500,000)	(88,500,000)
Change in unrealized loss from available for sale investments	4	-	-	-	(19,185,915)	-	(19,185,915)
December 31, 2016 (Unaudited)		590,000,000	371,142,305	27,109,010	(4,642,458)	527,544,337	1,511,153,194
January 1, 2015 (Audited)		472,000,000	371,142,305	27,109,010	13,335,176	390,354,868	1,273,941,359
Net income for the period		-	-	-	-	165,057,068	165,057,068
Increase in share capital	1-c	118,000,000	-	-	-	(118,000,000)	-
Dividends	7	-	-	-	-	(47,200,000)	(47,200,000)
Change in unrealized gain from available for sale investments	4	-	-	-	1,208,281	-	1,208,281
December 31, 2015 (Audited)		590,000,000	371,142,305	27,109,010	14,543,457	390,211,936	1,393,006,708

The accompanying notes from 1 to 10 form an integral part of these interim consolidated financial statements.

DALLAH HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

Notes to the interim consolidated financial statements (unaudited)
For the three-month and year ended December 31, 2016
 (All amounts in Saudi Riyals unless otherwise stated)

1 GENERAL INFORMATION

Dallah Healthcare Company (the "Company") was established in the Kingdom of Saudi Arabia as a Limited Liability Company under commercial registration No. 1010128530 dated 13 Rabi II 1415H (corresponding to September 18, 1994) in Riyadh. The Company's Board of Directors declared the Company as a Saudi Closed Joint Stock Company on 14 Jumada I 1429H (corresponding to May 20, 2008). In 28 Dhu Al-Qadah 1433H (corresponding to October 14, 2012), the Company obtained regulatory approvals to be converted into a public Joint Stock Company by issuing 14.2 million shares in an initial public offering with a nominal value of SR 142 million, as a result of the offering, a share premium of SR 371 million was included in the Company's statutory reserve. The Company became listed in the Saudi Capital Market In 4 Safar 1434H (corresponding to December 17, 2012). The Company changed its trading name from Dallah Healthcare Holding Company to Dallah Healthcare Company during an extraordinary annual general meeting held on 16 November 2016.

The objectives of the Company are to operate, manage and maintain the healthcare facilities, wholesale and retail of medicals, surgical equipment, artificial parts, handicapped and hospital equipment and manufacturing medicines, pharmaceuticals, herbals, health, cosmetics, detergents, disinfectants and packaging in the Kingdom of Saudi Arabia.

a- Construction in progress - The Company has completed the design of Dallah Hospital - Namar project, with a maximum capacity of 400 beds and 200 clinics which is planned to be completed over stages with an estimated total cost for this project amounted to SR 920 million. As part of this project, the Company has signed contracts with a value of the contract is SR 472 million, and it is expected to operate the first stage that includes 150 beds and 100 clinics by the third quarter of 2017.

b- Dr. Erfan and Bagedo General Hospital ("The acquired company") - On 11 Jumad Al-Akhr 1436H (corresponding to March 31, 2015), the acquisition agreement was expired and the target company decided not to renew the said agreement. Accordingly, the Company has written-off the deferred underwriting expenses related to such procedures amounted to SR 4.1 million during the first quarter of 2015 which were recorded under current assets.

c- Share capital - The share capital of the Company as of December 31, 2016 amounting to SR 590,000,000 (2015: SR 472,000,000) comprises of 59 million shares (2015: 47.2 million shares) stated at SR 10 per share.

The Company increased its share capital by transferring reserves from its retained earnings on 28 Dhu al-Hijjah 1436 H (corresponding to October 12, 2015) during an Extraordinary General Assembly Meeting (EAGM) of shareholders. This resulted in an increase of the Company's share capital by 25% amounting SR 118 million by issuing 1 share for every 4 shares held by shareholders registered at the EAGM date. Accordingly, the Company's share capital has increased to SR 590 million from SR 472 million divided into 59 million shares of SR 10 each.

The accompanying consolidated interim financial statements include the Company accounts and the following subsidiaries (collectively referred to as the "Group") that operate on separate commercial registrations:

<u>Subsidiaries</u>	<u>Commercial Registration</u>	<u>Country of incorporation</u>	<u>Ownership percentage as of December 31,</u>	
			<u>2016</u>	<u>2015</u>
Dallah Pharma Company (i)	1010410613	Kingdom of Saudi Arabia	98%	98%
Afyaa Al-Nakheel for Supporting Services Company Limited (ii)	1010404576	Kingdom of Saudi Arabia	99%	99%

The Company effectively owns 100% of all the subsidiaries as the remaining equity interests therein are owned by other parties on behalf of the Company.

d- Dallah Pharma Company- Dallah Pharma Company was established on 13 Jumad II 1435 H (corresponding to April 13, 2014) as a limited liability company with a share capital of SR 4 million. The activities of the company are the wholesale and retail trade in herbal and cosmetic products, food, milk and baby supplies, detergents, medical and surgical supplies and their maintenance and spare parts, chemicals, importing, exporting, marketing on behalf of others and operating factories and warehouses. The Company decided to transfer the operations of its branch (Dallah Pharma) and its assets and liabilities to Dallah Pharma Company effective January 1, 2015.

DALLAH HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

Notes to the interim consolidated financial statements (unaudited)
For the three-month and year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

1 GENERAL INFORMATION (continued)

Subsidiaries (continued)

d- Dallah Pharma Company (continued)

During the year ended December 31, 2016 the Company recorded SR 11,091,000 as losses from impairment of intangible assets that were initially booked on acquisition of Dallah Pharma Plant and were recorded as part of the net intangible assets in the interim consolidated balance sheet. Additionally the Company amortized an amount of SR 356,485 against leasehold rights, which is part of intangible assets in the interim consolidated balance sheet.

e- Afyaa Al-Nakheel for Supporting Services Company Limited - Afyaa Al-Nakheel for Supporting Services Company Limited was established on 13 Rabe'e II 1435H (corresponding to January 14, 2014) as a limited liability company with a share capital of SR 50,000, the activities of this company are to establish and provide maintenance services to hospitals and medical centers and other supporting services. Afyaa Al-Nakheel Company mainly provides its services to the Group.

These interim consolidated financial statements also include the accounts of the following branches of the Group, operating under individual commercial registrations:

<u>Branch</u>	<u>Commercial Registration</u>	<u>City</u>
Head Office	2057004306	Al Khafji
Dallah Hospital	1010132622	Riyadh
Medicine Warehouse (Dallah Pharma)	2050071905	Dammam
Medicine Warehouse (Dallah Pharma)	1010128997	Riyadh
Medicine Warehouse (Dallah Pharma)	4030140769	Jeddah
Medicine Warehouse (Dallah Pharma)	4030265250	Jeddah
Medicine Warehouse (Dallah Pharma)	1010381470	Riyadh
Dallah Pharma Factory	4030249929	Jeddah
Dallah Healthcare Company clinics complex	1010428613	Riyadh
Dallah Pharma Factory for medicines	4030279471	Jeddah

These interim consolidated financial statements include all the required adjustments so that the interim consolidated financial statements present fairly the interim consolidated financial position and interim consolidated results of operations for the Group. The results presented in these interim consolidated financial statements may not represent an accurate indicator of the Group's annual results. Interim consolidated financial statements do not include all information and disclosures required for the annual consolidated audited financial statements, therefore, these interim consolidated financial statements should be read in conjunction with annual audited consolidated financial statements and its related notes for the year ended December 31, 2015.

On 15 Rabi Al-awal 1438 (corresponding: 14 December 2016) the Company announced that it would be establishing a (Single Person) limited liability company with a total share capital of SR 5 million, fully owned by Dallah Healthcare Company. The activities of the new company will include the management, operations, development of hospitals, health facilities, complexes, medical clinics and buying lands for the Company. See note 10 for a subsequent event.

The accompanying interim consolidated financial statements were approved by the Company's management on 18 Rabia II 1438 (corresponding :16 January 2017).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these interim consolidated financial statements are set out below. These policies have consistently applied to all periods presented, unless otherwise stated.

The interim consolidated financial statements have been prepared in accordance with interim financial reports standards promulgated by the Saudi Organization for Certified Public Accountants ("SOCPA"). The accounting policies applied in the preparation of these interim consolidated financial statements are in line with those used in the preparation of the annual financial statements for the year ended December 31, 2015. Significant accounting policies are summarized as follows:

DALLAH HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

Notes to the interim consolidated financial statements (unaudited)
For the three-month and year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation

The accompanying interim consolidated financial statements have been prepared under the historical cost convention as modified by revaluation of available-for-sale investments to fair value and investment in an associate using equity method and on the accrual basis of accounting and in compliance with the accounting standards promulgated by the SOCPA.

2.2 Basis of consolidation

The interim consolidated financial statements include the accounts of the Company and its subsidiaries in which the Company has effective equity of 50% or more and/or controls more than half of the voting rights or has the ability to lead its financial and operation policies. Inter-company accounts and balances are eliminated upon consolidation.

2.3 Critical accounting estimates and judgments

The preparation of interim consolidated financial statements in conformity with generally accepted accounting principles in the Kingdom of Saudi Arabia requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management makes estimates and assumptions concerning the future which, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

(a) Provision for doubtful debts

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

(b) Provision for inventories obsolescence

Inventories are held at the lower of cost and net realizable value. When inventories become damaged, expired, old or obsolete, an estimate is made of their net realizable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are damaged, expired, old or obsolete, are assessed collectively, and an allowance applied according to the inventory type and the degree of ageing or obsolescence based on expected selling prices.

(c) Estimated impairment of intangible assets

The Group tests annually whether intangible assets have suffered any impairment, in accordance with the accounting policies of the Group. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(d) Estimated useful lives of property, plant and equipment

The Group's useful lives of property, plant and equipment are reviewed by the management at least once a year at the end of each financial year. When the expected useful life of an asset is difference from the prior expectations, changes are accounted for as changes in the accounting estimates and are charged to the interim consolidated income statement. Such estimates may have significant impact on the book value of property, plant and equipment and on the amount of depreciation charged to the interim consolidated income statement.

DALLAH HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

Notes to the interim consolidated financial statements (unaudited)
For the three-month and year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Investments

(a) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a share of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given or liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising from acquisition of subsidiaries is reported under "intangible assets" in the accompanying interim consolidated balance sheet. Goodwill is tested annually for impairment and carried at cost, net of any accumulated amortization and impairment losses, if any.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a share of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated amortization and impairment losses, if any.

The Group's share of its associates' post-acquisition income or losses is recognized in the interim consolidated income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses arising in investments in associates are recognized in the interim consolidated income statement.

(c) Available-for-sale investments

Available-for-sale investments principally consist of less than 20% equity investments in certain quoted/unquoted investments including investments in mutual funds. These investments are included in non-current assets unless management intends to sell such investments within twelve months from the interim consolidated balance sheet date.

These investments are initially recognized at cost and are subsequently re-measured at fair value at each reporting date of interim consolidated financial statements as follows:

- (i) Fair values of quoted securities are based on available market prices at the reporting date adjusted for any restriction on the transfer or sale of such investments;
- (ii) Fair values of investments in mutual funds are based on last unit price of the fund announced by Fund Manager before or at period end; and
- (iii) Fair values of unquoted securities are based on a reasonable estimate determined by reference to the current market value of other similar quoted investment securities or is based on the expected discounted cash flows. Where information is not available and there is no indication of impairment in the investment value, and cost is considered the fair value.

Cumulative adjustments arising from revaluation of these investments are reported as separate component of equity as fair value reserve until the investment is disposed.

DALLAH HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

Notes to the interim consolidated financial statements (unaudited)
For the three-month and year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Investments (continued)

(d) Held to maturity investments

Held to maturity investments are carried at cost (adjusted for any premium or discount), less any decline in value which is other than temporary. Such investments are classified as non-current assets with the exception of investments maturing in the following twelve months.

2.5 Impairment of financial assets value and uncollectability

Financial assets are reviewed for impairment at date of each interim consolidated balance sheet whenever there is objective evidence that a certain financial asset suffered impairment. When such evidence exists, impairment loss is recognized in the interim consolidated income statement. Impairment of value is determined as follows:

- (a) Assets recognized at fair value – impairment in value represents the difference between cost and fair value net of impairment losses previously recognized in the interim consolidated income statement.
- (b) Assets recognized at cost – impairment in value represents the difference between book value and present value of future cash flows discounted on the basis of prevailing interest rate in the market of similar asset.
- (c) Assets recognized at amortized cost – impairment in value represents the difference between book value and present value of future cash flows discounted using original effective interest rate.

2.6 Segment reporting

(a) Business segment

A business segment is group of assets, operations or entities:

- (i) Engaged in revenue producing activities;
- (ii) Results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) Financial information is separately available.

(b) Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

2.7 Foreign currency translations

(a) Reporting currency

The interim consolidated financial statements of the Company are presented in Saudi Riyals which is the reporting currency of the Group.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the interim consolidated income statement.

2.8 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with maturities of three months or less from the purchase date.

2.9 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the interim consolidated income statement and reported under "General and administrative expenses".

DALLAH HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

Notes to the interim consolidated financial statements (unaudited)
For the three-month and year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Accounts receivable (continued)

When account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "General and administrative expenses" in the interim consolidated income statement.

2.10 Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using weighted average method/batch. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. A provision is provided for obsolescence inventories.

2.11 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation except construction in progress which is carried at cost. Lands are not depreciated. Depreciation is charged to the interim consolidated income statement, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	Number of years
• Buildings	16 - 33
• Leasehold improvements	Shorter of estimated useful life (5) or lease period
• Machinery and equipment	3 - 10
• Medical equipment	6 - 8
• Furniture and fixtures	5 - 10
• Motor vehicles	4

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the interim consolidated income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the interim consolidated income statement, when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

2.12 Intangible assets

Intangible assets include licenses of manufacturing products and licenses of medical and herbal products and leasehold rights which represent the amount paid to lessor to acquire land lease contract. These intangible assets are not amortized, since they have indefinite useful life and are reviewed annually for impairment. The intangible assets which have definite useful life represented in the amount paid to acquire a land lease contract are amortized over the remaining contract period.

They also include the goodwill resulted from the acquisition which is reviewed annually to confirm that there is no impairment in its value.

2.13 Impairment of non-current assets

Property, plant and equipment and other non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date. A reversal of an impairment loss is recognized for intangible assets other than goodwill.

2.14 Accounts payable and accruals

Liabilities are recognized for amounts to be paid for goods received and services rendered, whether or not billed to the Group.

DALLAH HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

Notes to the interim consolidated financial statements (unaudited)
For the three-month and year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Provisions

Provisions are recognized when; the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

2.16 Zakat and Taxes

The Company and its subsidiaries are subject to zakat and income Tax in accordance with the regulations of the General Authority of Zakat and Income Tax (the "GAZT"). Provision for zakat is calculated on the zakat base and income tax is calculated based on pre-zakat and income tax income for the period. Any differences between the provision and the final assessment are recorded at the approval of the final assessment, when the provision is closed.

The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required by GAZT regulations.

2.17 Employees' termination benefits

Employees' termination benefits required by Saudi Labor and Workman Law are accrued by the Company and its subsidiaries charged to the interim consolidated income statement. The liability is calculated; as the current value of the vested benefits to which the employee is entitled, should the employee leave at the interim consolidated balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

2.18 Revenues

Revenues are recognized 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. Other income is recognized when they occur. The value of services provided which are not yet invoiced is recognized as accrued revenue at the period-end.

Dividends income is recognized when the right to receive payment is established from the Group.

2.19 Selling, marketing and general and administrative expenses

Selling, marketing and general and administrative expenses include direct and indirect costs not specifically part of cost of operating as required under generally accepted accounting standards. Allocations between selling and marketing expenses, general and administrative expenses and cost of operating, when required, are made on a consistent basis.

2.20 Murabaha finance

Murabaha finance is recognized at the proceeds received, net of transaction costs incurred, if any. Murabaha finance costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other murabaha finance costs are recognized in interim consolidated income statement.

2.21 Earnings per share

Earnings per share represent the share of profit in available income for ordinary shares. Earnings per share are computed for income from operations and net income based on the weighted average number of outstanding shares for the period ended December 31, 2016 and 2015.

2.22 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company transferred 10% of its annual net income to a statutory reserve until such reserve equaled 50% of the share capital. This reserve is not currently available for distribution to the shareholders. Share premium is being transferred to statutory reserve according to Article No. 98 of the Saudi Regulations for Companies.

2.23 Operating leases

Rental expenses under operating leases are charged to the interim consolidated income statement over the period of the respective lease using the straight-line method.

DALLAH HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

Notes to the interim consolidated financial statements (unaudited)
For the three-month and year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Dividends

Dividends are recorded in the interim consolidated financial statements in the period in which they are approved by the General Assembly of the Company.

3 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Risk management is carried out by senior management. The most important risks are currency risk, fair value and cash flow interest rate risks, credit risk, liquidity risk and fair value.

Financial instruments carried on the interim consolidated balance sheet include cash and cash equivalents, investments, accounts receivable, due from/to related parties, prepayments and other current assets, murabaha finance, trade accounts payable and accrued and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

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

3.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company does not have concentration of significant currency risk as its transactions are principally in Saudi Riyals, Jordanian Dinars and US dollars. Management monitors changes in currency rates and believes that currency risk is insignificant.

3.2 Fair value and cash flow interest rate risks

Fair value and cash flow interest rate risks are the exposures to various risk associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group is not exposed to fair value and cash flow interest rate risks as the murabaha finance have a fixed finance rate.

3.3 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 Group is exposed to price risk with respect to ownership shares in respect of investments held by the Group and classified as available for sale in the interim consolidated financial statements. The Group has diversified its portfolio to manage the price risk arising from investments in equity securities.

3.4 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group has no significant concentration of credit risk. Cash is placed with local banks with sound credit ratings. Accounts receivable are carried net of provision for doubtful debts. A percentage of approximately 29% of accounts receivable are due from governmental bodies as of December 31, 2016 (December 31, 2015: approximately 31%).

3.5 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.

DALLAH HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

Notes to the interim consolidated financial statements (unaudited)
For the three-month and year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

3 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

3.6 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Group's financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.

4 INVESTMENTS

Available for sale investments	Country of incorporation	Ownership percentage	2016	2015
Quoted investments:				
Aseer Trading, Tourism, Manufacturing, Agricultural, Real Estate and Contracting Company	Saudi Arabia	0.3%	7,195,150	9,399,792
Jordanian Pharmaceutical Manufacturing Company	Jordan	0.4%	312,463	398,221
Total quoted investments			7,507,613	9,798,013
Unquoted investments*:				
Makkah Medical Center Company	Saudi Arabia	7.5%	3,448,120	3,448,120
Al Ahsa Medical Services Company	Saudi Arabia	1.1%	1,798,145	1,798,145
Total unquoted investments			5,246,265	5,246,265
Other available for sale investments (4-1)			18,985,728	94,831,148
Total available for sale investments			31,739,606	109,875,426
Held to maturity investments (4-2)			28,125,000	28,125,000
			59,864,606	138,000,426

* The unquoted equity investments are stated at cost.

* The unquoted equity investments are stated at cost less any provision for decline in value.

4-1 Other available for sale investments

This item represents an investment in the units of local real estate mutual fund, which complies with Islamic Sharia.

4-2 Held to maturity investments

This item represents an investment in Sukuk in US dollars which complies with Islamic Sharia maturing on April 7, 2023 and it is available for sale before maturity date.

4-3 The movement of investments is listed below:

	2016	2015
January 1	138,000,426	136,409,017
Additions to available for sale investments	-	383,128
Disposal of Investments	(68,365,917)	
Realized Gain on sale of investment *	9,416,012	-
Change in unrealized (losses) / gains	(19,185,915)	1,208,281
December 31	59,864,606	138,000,426

* Included in other income in interim consolidated income statement.

DALLAH HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

Notes to the interim consolidated financial statements (unaudited)
For the three-month and year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

5 INVESTMENT IN AN ASSOCIATE

This represents an investment in an associate company for an amount of SR 129 million, which represents 30% of the share capital in Dr. Mohammed Rashed Al-Faqeeh Company, a closed joint stock company with an objective to construct general hospital east of Riyadh city. The Company paid additional SR 12.9 million, which represents the excess of the purchase price over the share in share capital that has been recorded as goodwill. The Company's share of profit from this investment is SR 1,389,191 for the year ended December 31, 2016 (SR 475,105: 2015).

6 MURABAHA FINANCING

The Company has murabaha finance contracts with local banks for the purpose of financing the expansion operations of the Company. These murabaha contracts are in Saudi Riyals and generally bear financial charges based on prevailing finance cost in the market. These murabaha contracts are guaranteed by promissory notes from the Company.

On 30 Rabi I 1437 (corresponding to January 10, 2016) the Company signed an Islamic financing contract with a local bank amounting SR 640 million. This financing will be repaid in quarterly installments for 8 years after a grace period of 3 years. The Company aims to finance the expansion of Dallah Hospital – Nakheel from the proceeds of this financing. A promissory note with a total of SR 640 million was signed by the Company for the financing bank.

During the three-month and twelve-month periods ended December 31, 2016, the Company capitalized financial charges amounted to SR 3,854,505 and SR 11,543,902 respectively (December 31, 2015: SR 3,397,677 and SR 7,698,397 respectively).

The volume of murabaha financing obtained by the Group is approximately SR 2,011 million, of which SR 1,530 million represents the unused portion as at December 31, 2016 (December 31, 2015: SR 1,910 million and SR 1,433 million, respectively).

The covenants of some of credit facilities require the Group to maintain certain level of financial indicators and some other requirements.

7 DIVIDENDS

On 25 Rajab 1437H (corresponding to May 2, 2016), the General Assembly approved the Board of Directors recommendation regarding the distribution of cash dividends of SR 88,500,000 for the year ended December 31, 2015 at SR 1.5 per share which have been fully paid during second quarter of 2016 (2015: SR 47,200,000, which have been paid fully during 2015).

8 CONTINGENCIES AND COMMITMENTS

- a) As at December 31, 2016, the Company had capital commitments that mainly relate to the construction contracts of the expansion of Dallah Hospital Nakheel and the construction of Namar Hospital amounting to SR 332,9 million (December 31, 2015: SR 434,6 million).
- b) As at December 31, 2016, the Group has a contingent liability in the form of bank guarantees amounting to SR 6.6 million which have been issued on behalf of the Group in the normal course of business (December 31, 2015: SR 6.2million).
- c) There are some legal cases filed against the Company, in the normal course of business, and is currently pleading them, but the final outcome of such cases is not certain yet. Management does not expect the outcome of these cases to be material to the interim consolidated financial statements of the Group.

9 SEGMENTAL INFORMATION

The Group consists of the following major business segments:

Hospitals segment - The objectives of the segment are to own, manage, operate and maintain the healthcare facilities.

Medicines segment - The objectives of the segment are to import, distribute, wholesale and retail of medicals. Also, manufacturing of medicines, pharmaceuticals, herbals, health, cosmetics, detergents, disinfectants, and packaging.

DALLAH HEALTHCARE COMPANY
(A Saudi Joint Stock Company)

Notes to the interim consolidated financial statements (unaudited)
For the three-month and year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

9 SEGMENTAL INFORMATION (continued)

Head Office segment - The objectives of the segment are to operate, manage and maintain the healthcare facilities, wholesale and retail of surgical equipment, artificial parts, handicapped and hospitals equipment and other supporting services.

The Group operates its activities within the Kingdom of Saudi Arabia only.

The analysis on the next page is a summary of selected financial information as at December 31, 2016 and 2015 and for the twelve-month periods then ended, to the above-mentioned business segments:

Details	December 31, 2016				Eliminations between segments	Total
	Hospitals	Medicines	Operations	Headquarters		
Operating revenues, net	1,132,297,239	36,670,211	20,518,633	-	(26,697,096)	1,162,788,987
Operating costs	(602,247,688)	(36,756,628)	(13,660,638)	-	26,697,096	(625,967,858)
Gross profit/(loss)	530,049,551	(86,417)	6,857,995	-	-	536,821,129
Net income/(loss) for the period	326,779,052	(78,565,664)	6,088,786	(28,469,773)	-	225,832,401
Total assets	953,024,116	134,120,930	41,948,971	1,062,080,977	54,067,851	2,245,242,845
Total liabilities	219,710,789	131,493,004	10,391,743	490,314,881	(117,820,766)	734,089,651
Capital expenditures	30,599,467	764,451	2,050	285,135,502	-	316,501,468
Depreciation	53,540,534	3,098,816	444,218	440,568	-	57,524,136

Details	December 31, 2015				Eliminations between segments	Total
	Hospitals	Medicines	Operations	Headquarters		
Operating revenues, net	917,204,380	60,239,734	21,264,135	-	(13,267,052)	985,441,197
Operating costs	(531,987,041)	(44,139,992)	(15,446,273)	-	13,267,052	(578,306,254)
Gross profit	385,217,339	16,099,742	5,817,862	-	-	407,134,943
Net income (loss) for the period	223,438,701	(17,956,381)	3,707,700	(44,132,952)	-	165,057,068
Total assets	974,255,559	188,711,113	36,536,080	848,767,903	(47,642,282)	2,000,628,373
Total liabilities	172,214,785	70,972,735	7,791,028	416,930,297	(60,287,180)	607,621,665
Capital expenditures	71,907,787	7,183,790	32,700	110,922,921	-	190,047,198
Depreciation	49,169,879	5,341,379	1,351,549	440,570	-	56,303,377

10 SUBSEQUENT EVENTS

On 10 Rabi II 1438H (corresponding to January 8, 2017), the Company established a limited liability company "Dallah Namar Hospital Health Co." under commercial registration No. 1010495218, with share capital of SR 5 million, fully owned (self financed). The purpose of the new company is operating, managing, equipping and developing hospitals and healthcare facilities, medical policlinics and compounds, in addition to owning land.