

**DALLAH HEALTH CARE HOLDING COMPANY**  
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS FOR THE  
YEAR ENDED DECEMBER 31, 2012 AND  
THE INDEPENDENT AUDITORS' REPORT

**DALLAH HEALTH CARE HOLDING COMPANY**  
**(A Saudi Joint Stock Company)**  
**Financial statements for the year ended December 31, 2012**

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## INDEPENDENT AUDITORS' REPORT

February 24, 2013

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

### Scope of audit

We have audited the accompanying balance sheet of Dallah Healthcare Holding Company (a Saudi Joint Stock Company) (the "Company") as of December 31, 2012 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and the related notes which form an integral part of these financial statements. These financial statements, which were prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### Unqualified opinion

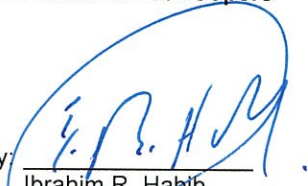
In our opinion, such financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in Saudi Arabia appropriate to the circumstances of the Company; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

### Emphasis of matter

We would like to draw the attention that according to Article 68 of the Regulations for Companies; any director in the board of directors must own number of shares whose value shall not be less than ten thousand Saudi Riyals, however, a director did not own the required minimum number of shares as at January 17, 2013, which represents the deadline date granted by the Ministry of Commerce and Industry to the directors to comply with the above article. We would like to indicate that as of the date of the approval of these accompanying financial statements, the concerned director owns the minimum required number or shares, and therefore became compliant with the above article.

### PricewaterhouseCoopers

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**DALLAH HEALTHCARE HOLDING COMPANY**  
**(A Saudi Joint Stock Company)**

**Balance sheet**

(All amounts in Saudi Riyals unless otherwise stated)

	Notes	As at December 31,	
		2012	2011
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	560,477,651	84,973,451
Accounts receivable, net	5	159,764,747	122,391,414
Inventories, net	6	33,761,528	30,449,698
Prepayments and other current assets, net	7	66,547,134	51,317,125
Due from related parties	12	2,607,512	2,478,490
Property held for sale		-	7,933,819
Deferred underwriting expenses		-	6,204,471
		<b>823,158,572</b>	<b>305,748,468</b>
<b>Non-current assets</b>			
Available for sale investments	8	11,957,232	11,662,878
Property and equipment, net	9	437,627,789	380,275,643
		<b>449,585,021</b>	<b>391,938,521</b>
<b>Total assets</b>		<b>1,272,743,593</b>	<b>697,686,989</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Trade accounts payable		54,872,675	49,061,784
Short-term murabaha finance	10	5,031,233	77,050,501
Accrued expenses and other current liabilities	11	41,086,343	42,915,524
Due to related parties	12	1,140,125	1,030,104
Liabilities against capital leases	13	-	4,112,740
Dividends payable		-	6,478,948
Zakat payable	20	5,907,136	8,022,005
		<b>108,037,512</b>	<b>188,671,606</b>
<b>Non-current liability</b>			
Employees' termination benefits	14	49,124,132	40,230,050
<b>Total liabilities</b>		<b>157,161,644</b>	<b>228,901,656</b>
<b>Shareholders' equity</b>			
Share capital	15	472,000,000	330,000,000
Statutory reserve	16	398,251,315	13,773,014
Fair value reserve		(2,876,592)	(3,170,946)
Retained earnings		248,207,226	128,183,265
<b>Total shareholders' equity</b>		<b>1,115,581,949</b>	<b>468,785,333</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,272,743,593</b>	<b>697,686,989</b>
<b>Contingencies and commitments</b>	22		

The notes on pages 7 to 18 form an integral part of these financial statements.

**DALLAH HEALTHCARE HOLDING COMPANY****(A Saudi Joint Stock Company)****Income statement**

(All amounts in Saudi Riyals unless otherwise stated)

		<b>Year ended December 31,</b>	
	<b>Notes</b>	<b>2012</b>	<b>2011</b>
Operating revenues		<b>637,058,049</b>	527,343,715
Cost of operating		<b>(393,447,700)</b>	(337,459,177)
<b>Gross profit</b>		<b>243,610,349</b>	189,884,538
<b>Operating expenses</b>			
Selling and marketing	17	<b>(10,112,416)</b>	(8,475,189)
General and administrative	18	<b>(73,163,122)</b>	(60,563,676)
Provision for doubtful debts	5, 7	<b>(29,449,487)</b>	(19,266,762)
Reversal (provision) for inventory obsolescence	6	<b>119,472</b>	(275,376)
Obsolete inventory write-off		-	(3,383,094)
<b>Income from operations</b>		<b>131,004,796</b>	97,920,441
Other income, net	19	<b>6,749,612</b>	21,433,747
Financial charges		<b>(2,697,495)</b>	(2,192,202)
<b>Income before zakat</b>		<b>135,056,913</b>	117,161,986
Zakat	20	<b>(1,696,956)</b>	(3,760,562)
<b>Net income for the year</b>		<b>133,359,957</b>	113,401,424
<b>Earnings per share</b>			
Income from operations	21	<b>3.81</b>	3.18
Non-operating income	21	<b>0.07</b>	0.50
<b>Net income for the year</b>	21	<b>3.88</b>	3.68

The notes on pages 7 to 18 form an integral part of these financial statements.

**DALLAH HEALTHCARE HOLDING COMPANY**  
**(A Saudi Joint Stock Company)**  
**Cash flow statement**  
(All amounts in Saudi Riyals unless otherwise stated)

		<b>For the year ended December 31,</b>	
	<b>Notes</b>	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>			
Net income for the year		<b>133,359,957</b>	113,401,424
<u>Adjustments for non-cash items</u>			
Depreciation	9	<b>28,864,445</b>	25,506,716
Provision for doubtful debts	5, 7	<b>29,449,487</b>	19,266,762
Provision for employees' termination benefits	14	<b>12,301,092</b>	9,559,814
Loss on sale of property and equipment		<b>25,973</b>	28,435
(Reversal) provision for inventory obsolescence	6	<b>(119,472)</b>	275,376
Reversal of accrued expenses and other liabilities		-	(962,075)
Obsolete inventory write-off		-	3,383,094
Zakat provision	20	<b>1,696,956</b>	3,760,562
<u>Changes in working capital</u>			
Accounts receivable		<b>(65,507,714)</b>	(33,165,651)
Inventories		<b>(3,192,358)</b>	1,609,591
Prepayment and other current assets		<b>(16,545,115)</b>	(25,723,149)
Due from related parties		<b>(129,022)</b>	901,230
Property held for sale		<b>7,933,819</b>	-
Trade accounts payable		<b>5,810,891</b>	2,229,284
Accrued expenses and other current liabilities		<b>(1,829,181)</b>	17,024,262
Due to related parties		<b>110,021</b>	189,614
Employees' termination benefits paid	14	<b>(3,407,010)</b>	(4,802,354)
Zakat paid	20	<b>(3,811,825)</b>	(4,442,370)
Net cash generated from operating activities		<b>125,010,944</b>	128,040,565
<b>Cash flow from investing activities</b>			
Additions to property and equipment	9	<b>(86,387,985)</b>	(72,180,389)
Proceeds from sale of property and equipment		<b>145,421</b>	4,810
Proceeds from investment in subsidiary		-	659,174
Net cash utilized in investing activities		<b>(86,242,564)</b>	(71,516,405)
<b>Cash flow from financing activities</b>			
Increase in share capital	15	<b>142,000,000</b>	-
Proceeds from share premium, net	15	<b>377,346,776</b>	-
Dividends paid		<b>(6,478,948)</b>	(105,114,287)
Liabilities against capital leases	13	<b>(4,112,740)</b>	(4,868,820)
Short-term murabaha finance	10	<b>(72,019,268)</b>	77,050,501
Deferred underwriting expenses		-	(3,991,721)
Net movement in shareholders' current account		-	(1,422,483)
Net cash generated from (utilized in) financing activities		<b>436,735,820</b>	(38,346,810)
<b>Net change in cash and cash equivalents</b>		<b>475,504,200</b>	18,177,350
Cash and cash equivalents at beginning of the year		<b>84,973,451</b>	66,796,101
<b>Cash and cash equivalents at end of the year</b>		<b>560,477,651</b>	84,973,451

(Continued to page 5)

The notes on pages 7 to 18 form an integral part of these financial statements.

**DALLAH HEALTHCARE HOLDING COMPANY****(A Saudi Joint Stock Company)****Cash flow statement (concluded)**

(All amounts in Saudi Riyals unless otherwise stated)

		<b>For the year ended December 31,</b>	
<b>Notes</b>	<b>2012</b>	<b>2011</b>	
<b>Supplementary information for non-cash transactions</b>			
	<b>6,204,471</b>	-	
Closing deferred underwriting expenses in share premium			
Write-off of receivables bad debts	5 <b>19,516,443</b>	8,127,352	
Zakat provision reversal	20 <b>(4,210,180)</b>	-	
Unrealized gain from revaluation of available for sale investments	8 <b>(294,354)</b>	(765,145)	
Increase in share capital from retained earnings	-	31,614,942	
Increase in share capital from statutory reserve	-	30,385,058	
Assets transferred to increase share capital	-	120,000,000	
Write-off bad debts of other receivables	7 <b>12,445</b>	1,319,058	
Disposal of investment in subsidiary under liquidation and closing it in due to related parties	12 -	(5,811,446)	
Dividends payable	-	6,478,948	
Closing due from a shareholder in a due from a related party account for the same shareholder	-	75,000	
Closing due from related parties in dividends payable	-	8,406,765	
Closing due from related parties in shareholders' current account	-	1,476,941	

The notes on pages 7 to 18 form an integral part of these financial statements.

**DALLAH HEALTHCARE HOLDING COMPANY**

**(A Saudi Joint Stock Company)**

**Statement of changes in shareholders' equity for the year ended December 31, 2012**

(All amounts in Saudi Riyals unless otherwise stated)

	<u>Statutory reserve</u>				Retained earnings	Total shareholders' equity
	Share capital	Share premium	Transfers from net income	Fair value reserve		
<b>January 1, 2012</b>	<b>330,000,000</b>	-	<b>13,773,014</b>	<b>(3,170,946)</b>	<b>128,183,265</b>	<b>468,785,333</b>
Increase in share capital	<b>142,000,000</b>	-	-	-	-	<b>142,000,000</b>
Share premium (Note 15)	-	<b>371,142,305</b>	-	-	-	<b>371,142,305</b>
Net income for the year	-	-	-	-	<b>133,359,957</b>	<b>133,359,957</b>
Transfer to statutory reserve	-	-	<b>13,335,996</b>	-	<b>(13,335,996)</b>	-
Change in unrealized gain from available for sale investments	-	-	-	<b>294,354</b>	-	<b>294,354</b>
<b>December 31, 2012</b>	<b>472,000,000</b>	<b>371,142,305</b>	<b>27,109,010</b>	<b>(2,876,592)</b>	<b>248,207,226</b>	<b>1,115,581,949</b>
<b>January 1, 2011</b>	148,000,000	-	32,817,930	(3,936,091)	177,736,925	354,618,764
Increase in share capital	182,000,000	-	(30,385,058)	-	(31,614,942)	120,000,000
Net income for the year	-	-	-	-	113,401,424	113,401,424
Transfer to statutory reserve	-	-	11,340,142	-	(11,340,142)	-
Dividends	-	-	-	-	(120,000,000)	(120,000,000)
Change in unrealized gain from available for sale investments	-	-	-	765,145	-	765,145
<b>December 31, 2011</b>	<b>330,000,000</b>	-	<b>13,773,014</b>	<b>(3,170,946)</b>	<b>128,183,265</b>	<b>468,785,333</b>

The notes on pages 7 to 18 form an integral part of these financial statements.



## DALLAH HEALTHCARE HOLDING COMPANY

### (A Saudi Joint Stock Company)

#### Notes to the financial statements for the year ended December 31, 2012

(All amounts in Saudi Riyals unless otherwise stated)

## 1 GENERAL INFORMATION

Dallah Healthcare Holding 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 Dallah Healthcare Holding Company as a Saudi Closed Joint Stock Company on 14 Jumad I 1429H (corresponding to May 20, 2008). On 28 Dhu Al Qa'dah 1433H (corresponding to October 14, 2012), the Company obtained an approval to be transferred to a public joint stock company by issuing 14.2 million shares in an initial public offering. The Company became a listed company in the Saudi Capital Market on 4 Safar 1434H (corresponding to December 17, 2012) (see Note 15).

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 equipments in the Kingdom of Saudi Arabia.

The accompanying financial statements include accounts of the Company and its following branches, operating under individual commercial registrations:

<u>Branch</u>	<u>Commercial registration</u>	<u>City</u>
Dallah Hospital	1010132622	Riyadh
Head Office	2057004306	Al Khafji
Medicine Warehouse (Dallah Pharma)	2050071905	Dammam
Medicine Warehouse (Dallah Pharma)	1010128997	Riyadh
Medicine Warehouse (Dallah Pharma)	4030140769	Jeddah

The accompanying financial statements were approved by the Company's Board of Directors on 13 Rabea II 1434H (corresponding to February 23, 2013).

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 stated.

### 2.1 Basis of preparation

The accompanying financial statements have been prepared under the historical cost convention on the accrual basis of accounting as modified by revaluation of available-for-sale investment to fair value and compliance with the accounting standards promulgated by the Saudi Organization for Certified Public Accountants ("SOCPA").

### 2.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with generally accepted accounting principles 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 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 year are discussed below:

#### (a) 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.

## **DALLAH HEALTHCARE HOLDING COMPANY**

**(A Saudi Joint Stock Company)**

**Notes to the financial statements for the year ended December 31, 2012**

(All amounts in Saudi Riyals unless otherwise stated)

### **(b) Provision for inventories obsolescence**

Inventories are held at the lower of cost and net realizable value. When inventories become 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 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.

### **2.3 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 balance sheet date. These investments are initially recognized at cost and are subsequently re-measured at fair value at each reporting date 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; and
- (ii) 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.

### **2.4 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.

### **2.5 Foreign currency translations**

#### **(a) Reporting currency**

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

#### **(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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

### **2.6 Cash and cash equivalents**

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

## **DALLAH HEALTHCARE HOLDING COMPANY**

**(A Saudi Joint Stock Company)**

**Notes to the financial statements for the year ended December 31, 2012**

(All amounts in Saudi Riyals unless otherwise stated)

### **2.7 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 Company will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the income statement. 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 in the income statement.

### **2.8 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. The provision is provided for obsolescence inventories.

### **2.9 Property and equipment**

Property and equipment are carried at cost less accumulated depreciation except construction in progress which is carried at cost. Depreciation is charged to the 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:

	<b>Number of years</b>
• 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
• Vehicles	4

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

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

### **2.10 Impairment of non-current assets**

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 Company at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than intangible assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of operations. Impairment losses recognized on intangible assets are not reversible.

### **2.11 Accounts payable and accruals**

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

### **2.12 Provisions**

Provisions are recognized when; the Company 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.

## **DALLAH HEALTHCARE HOLDING COMPANY**

### **(A Saudi Joint Stock Company)**

#### **Notes to the financial statements for the year ended December 31, 2012**

(All amounts in Saudi Riyals unless otherwise stated)

#### **2.13 Zakat**

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax (the "DZIT"). Provision for zakat for the Company is charged to the income statement. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

#### **2.14 Employees' termination benefits**

Employees' termination benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the 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 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.

#### **2.15 Revenues**

Revenues are recognized upon providing the services to customers and sales in recognized upon delivery of products and accepted by customers. Other revenues are recognized when they occur. The value of services provided which are not yet invoiced are recognized as accrued revenues at the end of the year.

#### **2.16 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 revenues as required under generally accepted accounting principles. Allocations between selling, marketing and of general and administrative expenses, cost of revenues, when required, are made on a consistent basis.

#### **2.17 Islamic murabaha**

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

#### **2.18 Earnings per share**

Earnings per share is calculated using the weighted average number of shares outstanding during the year.

#### **2.19 Statutory reserve**

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of net income for the year to a statutory reserve until such reserve equals 50% of the share capital. This reserve is not currently available for distribution to the shareholders.

#### **2.20 Leases**

##### **a) Capital leases**

The Company accounts for property and equipment acquired under capital leases by recording the assets and the related liabilities. These amounts are determined on the basis of the present value of minimum lease payments. Financial charges are allocated to the lease term in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation on assets under capital leases is charged to income applying the straight-line method at the rates applicable to the related assets.

##### **b) Operating leases**

Rental expenses under operating leases are charged to the income statement over the period of the respective lease.

#### **2.21 Dividends**

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

## DALLAH HEALTHCARE HOLDING COMPANY

(A Saudi Joint Stock Company)

Notes to the financial statements for the year ended December 31, 2012

(All amounts in Saudi Riyals unless otherwise stated)

### 2.22 Reclassifications

Certain reclassifications have been made in the comparative year financial statements to conform with the year ended December 31, 2012 presentation.

## 3 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the balance sheet include cash and cash equivalents, available for sale investments, accounts receivable, due from/to related parties, prepayments and other current assets, short-term murabaha finance, 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 financial statements, when the Company 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.

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

### 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.

### 3.2 Fair value and cash flow interest rate risk

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 Company's financial position and cash flows. The Company is not exposed to fair value and cash flow interest rate risks as investments in murabaha and murabaha finance have a fixed income rate or a fixed finance rate.

### 3.3 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 Company has no significant concentration of credit risk. Cash is placed with banks with sound credit ratings. Accounts receivable are carried net of provision for doubtful debts.

### 3.4 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.

### 3.5 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 Company'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 Company's financial assets and liabilities are not materially different from their carrying values.

## 4 CASH AND CASH EQUIVALENTS

	<u>2012</u>	<u>2011</u>
Cash in hand	804,320	502,076
Cash at banks	116,173,331	84,471,375
Investment in murabaha	<u>443,500,000</u>	<u>-</u>
	<u>560,477,651</u>	<u>84,973,451</u>

**DALLAH HEALTHCARE HOLDING COMPANY****(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2012**

(All amounts in Saudi Riyals unless otherwise stated)

**5 ACCOUNTS RECEIVABLE, NET**

	<u>2012</u>	<u>2011</u>
Receivables	194,794,117	148,802,846
Less: Provision for doubtful debts	<u>(35,029,370)</u>	<u>(26,411,432)</u>
	<u><u>159,764,747</u></u>	<u><u>122,391,414</u></u>

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

	<u>2012</u>	<u>2011</u>
January 1	26,411,432	15,272,444
Addition	28,134,381	19,266,340
Write-off of bad debts	<u>(19,516,443)</u>	<u>(8,127,352)</u>
December 31	<u><u>35,029,370</u></u>	<u><u>26,411,432</u></u>

**6 INVENTORIES, NET**

	<u>2012</u>	<u>2011</u>
Medicines	26,769,388	24,321,107
Medical supplies	3,783,608	3,107,280
Medical consumables	2,251,363	2,127,328
Others	<u>1,279,112</u>	<u>1,335,398</u>
	34,083,471	30,891,113
Less: Provision for inventories obsolescence	<u>(321,943)</u>	<u>(441,415)</u>
	<u><u>33,761,528</u></u>	<u><u>30,449,698</u></u>

The summary of the movement of provision for inventory obsolescence is as follows:

	<u>2012</u>	<u>2011</u>
January 1	441,415	166,039
Additions	-	275,376
Provision reversal	<u>(119,472)</u>	<u>-</u>
December 31	<u><u>321,943</u></u>	<u><u>441,415</u></u>

**7 PREPAYMENTS AND OTHER CURRENT ASSETS, NET**

	<u>2012</u>	<u>2011</u>
Prepayments	12,771,923	7,659,402
Advances to suppliers	30,348,106	15,985,704
Retention receivables	8,604,804	15,179,125
Employees' advances	2,671,121	2,666,804
Accrued revenue	6,683,823	3,545,516
Advances to purchase land (*) (Note 22)	2,000,000	2,000,000
Other assets	<u>4,839,519</u>	<u>4,350,075</u>
	67,919,296	51,386,626
Less: Provision for doubtful debts	<u>(1,372,162)</u>	<u>(69,501)</u>
	<u><u>66,547,134</u></u>	<u><u>51,317,125</u></u>

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

	<u>2012</u>	<u>2011</u>
January 1	69,501	1,388,137
Addition	1,315,106	422
Write-off bad debts	<u>(12,445)</u>	<u>(1,319,058)</u>
December 31	<u><u>1,372,162</u></u>	<u><u>69,501</u></u>

**DALLAH HEALTHCARE HOLDING COMPANY**

**(A Saudi Joint Stock Company)**

**Notes to the financial statements for the year ended December 31, 2012**

(All amounts in Saudi Riyals unless otherwise stated)

(\*) During the year ended December 31, 2011, the Company had signed a contract to buy a parcel of land for an amount of Saudi Riyals 85 million located in the west of Riyadh and paid Saudi Riyals 2 million as an advance until the finalization of the legal formalities of the transaction.

**8 AVAILABLE FOR SALE INVESTMENTS**

	<b>Country of incorporation</b>	<b>Ownership percentage</b>	<b>2012</b>	<b>2011</b>
<b>Quoted investments:</b>				
Aseer Trading, Tourism and Manufacturing Company	Kingdom of Saudi Arabia	1.0%	<b>6,633,968</b>	6,253,166
Jordanian Pharmaceutical Manufacturing Company	Hashemite Kingdom of Jordan	0.5%	<b>575,144</b>	661,592
			<b>7,209,112</b>	<b>6,914,758</b>
<b>Unquoted investments:</b>				
Makkah Medical Center Company	Kingdom of Saudi Arabia	8.0%	<b>3,448,120</b>	3,448,120
Al Ehsa Medical Services Company	Kingdom of Saudi Arabia	0.8%	<b>1,300,000</b>	1,300,000
			<b>4,748,120</b>	<b>4,748,120</b>
<b>Total</b>			<b>11,957,232</b>	<b>11,662,878</b>

The following movement of investment in available for sale:

	<b>2012</b>	<b>2011</b>
January 1	<b>11,662,878</b>	10,897,733
Unrealized gains	<b>294,354</b>	765,145
December 31	<b>11,957,232</b>	<b>11,662,878</b>

**9 PROPERTY AND EQUIPMENT, NET**

	<b>January 1, 2012</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>December 31, 2012</b>
<b>Cost</b>					
Land	136,863,246	-	-	-	<b>136,863,246</b>
Buildings	251,052,237	-	-	37,375,875	<b>288,428,112</b>
Leasehold improvements	36,836,673	800,353	(3,080)	1,772,121	<b>39,406,067</b>
Machinery and equipment	48,537,898	179,582	-	-	<b>48,717,480</b>
Medical equipment	205,702,751	20,573,313	(2,821,239)	-	<b>223,454,825</b>
Furniture and fixtures	12,401,178	812,243	(54,479)	-	<b>13,158,942</b>
Vehicles	3,996,880	419,200	(21,000)	-	<b>4,395,080</b>
Construction in progress	47,391,329	63,603,294	-	(39,147,996)	<b>71,846,627</b>
	<b>742,782,192</b>	<b>86,387,985</b>	<b>(2,899,798)</b>	-	<b>826,270,379</b>
<b>Accumulated depreciation</b>					
Buildings	(137,245,017)	(8,345,237)	-	-	<b>(145,590,254)</b>
Leasehold improvements	(24,823,733)	(3,572,848)	616	-	<b>(28,395,965)</b>
Machinery and equipment	(48,114,376)	(142,667)	-	-	<b>(48,257,043)</b>
Medical equipment	(142,089,985)	(15,322,226)	2,664,716	-	<b>(154,747,495)</b>
Furniture and fixtures	(7,333,209)	(1,096,250)	42,072	-	<b>(8,387,387)</b>
Vehicles	(2,900,229)	(385,217)	21,000	-	<b>(3,264,446)</b>
	<b>(362,506,549)</b>	<b>(28,864,445)</b>	<b>2,728,404</b>	-	<b>(388,642,590)</b>
<b>Net book value</b>	<b>380,275,643</b>				<b>437,627,789</b>

**DALLAH HEALTHCARE HOLDING COMPANY**

**(A Saudi Joint Stock Company)**

**Notes to the financial statements for the year ended December 31, 2012**

(All amounts in Saudi Riyals unless otherwise stated)

	January 1, 2011	Additions	Assets transferred to increase share capital (Note 15)	Disposals	Transfers	December 31, 2011
<b>Cost</b>						
Lands	54,400,000	-	82,463,246	-	-	136,863,246
Buildings	90,719,589	-	160,332,648	-	-	251,052,237
Leasehold improvements	34,430,098	1,476,807	-	-	929,768	36,836,673
Machinery and equipment	1,977,328	85,469	46,475,101	-	-	48,537,898
Medical equipment	186,980,376	20,103,963	-	(1,381,588)	-	205,702,751
Furniture and fixtures	8,823,154	3,665,655	-	(87,631)	-	12,401,178
Vehicles	3,134,925	877,155	-	(15,200)	-	3,996,880
Construction in progress	15,591,043	45,971,340	(5,307,467)	-	(8,863,587)	47,391,329
	<b>396,056,513</b>	<b>72,180,389</b>	<b>283,963,528</b>	<b>(1,484,419)</b>	<b>(7,933,819)</b>	<b>742,782,192</b>
<b>Accumulated depreciation</b>						
Buildings	(12,137,265)	(7,619,325)	(117,488,427)	-	-	(137,245,017)
Leasehold improvements	(21,590,856)	(3,232,877)	-	-	-	(24,823,733)
Machinery and equipment	(1,568,959)	(70,316)	(46,475,101)	-	-	(48,114,376)
Medical equipment	(130,261,182)	(13,177,147)	-	1,348,344	-	(142,089,985)
Furniture and fixtures	(6,545,002)	(875,838)	-	87,631	-	(7,333,209)
Vehicles	(2,384,215)	(531,213)	-	15,199	-	(2,900,229)
	<b>(174,487,479)</b>	<b>(25,506,716)</b>	<b>(163,963,528)</b>	<b>1,451,174</b>	<b>-</b>	<b>(362,506,549)</b>
<b>Net book value</b>	<b>221,569,034</b>					<b>380,275,643</b>

**10 SHORT-TERM MURABAHA FINANCE**

During 2012, the Company signed two short-term murabaha finance contracts with local banks to finance the Company's operations. These murabaha contracts are denominated in Saudi Riyals and generally bear financial charges based on prevailing market rates. These murabaha contracts are principally secured by promissory note by the Company.

**11 ACCRUED AND OTHER CURRENT LIABILITIES**

	<u>2012</u>	<u>2011</u>
Employees' related accruals (*)	17,192,735	16,068,214
Advances	-	5,182,500
Accrued expenses	16,619,958	10,939,914
Other payables	6,373,458	9,889,274
Deferred revenues	100,475	342,993
Other liabilities	799,717	492,629
	<u>41,086,343</u>	<u>42,915,524</u>

(\*) Employees' related accruals include balances for vacations, tickets, accrued bonus and other accruals.



**DALLAH HEALTHCARE HOLDING COMPANY****(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2012**

(All amounts in Saudi Riyals unless otherwise stated)

**12 RELATED PARTY MATTERS**

Significant transactions and balances with related parties in the ordinary course of business which does not include preferred transactions, included in the financial statements are summarized as follows:

**Due from related parties:**

Related party	Nature of transaction	Amount of transactions		Balance	
		2012	2011	2012	2011
Al Baraka Medical Clinic	Medical services	61,728	145,282	2,231,084	2,333,869
Dallah Al Baraka Holding Company	Medical services	-	1,384,163	-	-
Sheikh Saleh A. Kamel	Medical services	40,596	155,945	4,608	-
Sheikh Abdullah Saleh Kamel	Medical services	627,333	164,783	122,809	-
Al Masfaq Company	Administrative services	-	1,369,251	-	-
Dallah Healthcare Institute (*)	Usufruct	329,170	8,003,262	63,695	-
Others	-	589,777	2,187,049	185,316	144,621
Total				2,607,512	2,478,490

(\*) Transaction amount represent compensation for the right to use the land (see Note 19).

**Due to related parties**

Related party	Nature of transaction	Amount of transactions		Balance	
		2012	2011	2012	2011
Dareen Travel Agency	Travel tickets	1,847,823	798,765	496,432	451,609
Dallah Trading Company	Maintenance of air conditions	978,021	776,663	592,403	486,441
Al Takaful Arabian Malaysian Company	Investment in subsidiary	-	5,811,446	-	-
Others	-	132,025	252,508	51,290	92,054
Total				1,140,125	1,030,104

**13 LIABILITIES AGAINST CAPITAL LEASES**

The Company leased certain machinery and equipment under a capital lease agreements with a financial institution. The lease payments under such agreements are due in monthly installments. The amounts of the future payments made under the capital leases at December 31, were as follows:

	2012	2011
January 1	4,112,740	8,981,560
Paid during the year	<u>(4,112,740)</u>	<u>(4,868,820)</u>
Less: Current portion	<u>-</u>	<u>4,112,740</u>
December 31	<u>=====</u> -	<u>=====</u> -

The present value of minimum lease payment has been discounted at an effective interest rate that prevailed in market. Repairs and insurance costs related to the lease machinery and equipment are to be borne by the Company. During 2012, the Company purchased the leased assets at the termination of the lease period at nominal values provided in the lease agreement.

**DALLAH HEALTHCARE HOLDING COMPANY****(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2012**

(All amounts in Saudi Riyals unless otherwise stated)

**14 PROVISION FOR EMPLOYEES' TERMINATION BENEFITS**

	<u>2012</u>	<u>2011</u>
January 1	<b>40,230,050</b>	35,472,590
Provision for the year	<b>12,301,092</b>	9,559,814
Paid during the year	<b><u>(3,407,010)</u></b>	<b><u>(4,802,354)</u></b>
December 31	<b><u>49,124,132</u></b>	<b><u>40,230,050</u></b>

**15 SHARE CAPITAL**

On 11 Rabi Alawal 1432H (corresponding to February 14, 2011), the shareholders of the Company resolved in their extra ordinary general assembly meeting to increase the share capital from SR 148 million to SR 330 million by increasing the number of shares from 14.8 million shares to 33 million shares at Saudi Riyals 10 per share. This increase incurred through transferring SR 31.6 million from retained earnings and SR 30.4 million from the statutory reserve, and SR 120 million (Note 9), which represents a difference in the fair value of the parcels of land transferred to one of the shareholders by the Company and the parcels of land that include the land of the hospital and accommodation and buildings constructed on them, which were transferred from the same shareholder to the Company. All the legal formalities related to the increase in share capital were finalized during the year ended December 31, 2011.

On 25 Jumadah II 1433H (corresponding to May 16, 2012) General Assembly resolved to increase the share capital from SR 330 million to SR 472 million by increasing the number of shares from 33 million shares to 47.2 million shares at SR 10 per share. On October 14, 2012, the Company obtained approval from the Capital Market Authority to issue 14.2 shares in an initial public offering during the period from November 19, 2012 to November 25, 2012 generating share premium amounted to SR 28 per share with a net amount of SR 371.1 million after deducting underwriting expenses amounted to SR 26.5 million. The net share premium was transferred to the statutory reserve according to Article No. 98 of Saudi Regulations for Companies.

**16 STATUTORY RESERVE**

In accordance with Saudi Regulations for Companies and the Company's Articles of Association, 10% of the annual net income is required to be transferred to a statutory reserve until this reserve equals 50% of the capital. During the year ended December 31, 2012 an amount of SR 384,478,301 was transferred to the reserve. This amount represent share premium amounted to SR 371,142,305, this in addition to the transfer from the net income amounted to SR 13,335,996 (2011: SR 11,340,142). This reserve is not available for distribution to shareholders.

**17 SELLING AND MARKETING EXPENSES**

	<u>2012</u>	<u>2011</u>
Advertising and promotion	<b>8,061,480</b>	6,438,466
Salaries, wages and benefits	<b>700,301</b>	946,714
Others	<b><u>1,350,635</u></b>	<b><u>1,090,009</u></b>
	<b><u>10,112,416</u></b>	<b><u>8,475,189</u></b>

**18 GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>2012</u>	<u>2011</u>
Salaries, wages and benefits	<b>47,144,039</b>	38,389,797
Insurance	<b>384,143</b>	409,155
Maintenance	<b>11,096,687</b>	9,698,940
Board of Directors and related committees remunerations	<b>2,337,078</b>	91,728
Utilities	<b>2,012,356</b>	2,250,350
Postage and communications	<b>1,976,478</b>	1,636,916
Travelling	<b>499,690</b>	589,168
Training	<b>861,934</b>	977,695
Professional fees	<b>858,813</b>	1,166,500
Rent	<b>1,571,394</b>	1,250,560
Others	<b><u>4,420,510</u></b>	<b><u>4,102,867</u></b>
	<b><u>73,163,122</u></b>	<b><u>60,563,676</u></b>

**DALLAH HEALTHCARE HOLDING COMPANY****(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2012**

(All amounts in Saudi Riyals unless otherwise stated)

**19 OTHER INCOME, NET**

	<u>2012</u>	<u>2011</u>
Rent	905,768	1,133,801
Compensation from shareholders (*)	-	10,896,400
Cafeteria	2,029,755	1,542,637
Education support	960,481	999,743
Losses on sale of property and equipment	(25,973)	(28,435)
Others (**)	<u>2,879,581</u>	<u>6,889,601</u>
	<u>6,749,612</u>	<u>21,433,747</u>

(\*) Balance represents amount of SR 8.7 million paid from a shareholder as a compensation for the right to use the land owned by the Company, and an amount of SR 2.2 million which represent the difference in fair value of lots of land which related to the increase in share capital (Note 15).

(\*\*) The Company realized a gain of Saudi Riyals 4 million as a result of the sale of a pharmaceutical agency during the year ended December 31, 2011.

**20 ZAKAT****20.1 Zakat calculation for two years ended December 31:**

	<u>2012</u>	<u>2011</u>
<b>Zakat base</b>		
Shareholders' equity	471,956,279	245,033,803
Provisions	48,307,208	42,242,810
Increase in share capital	-	120,000,000
Liabilities against capital leases	-	4,112,740
Adjusted net income	<u>180,418,376</u>	<u>144,397,581</u>
	<u>700,681,863</u>	555,786,934
Less: property and equipments, net	<u>(449,562,616)</u>	(390,530,615)
Investments	<u>(14,833,824)</u>	(14,833,824)
Zakat base	<u>236,285,423</u>	<u>150,422,495</u>
Zakat	<u>5,907,136</u>	<u>3,760,562</u>

**20.2 Provision for zakat movement summarized as follows:**

	<u>2012</u>	<u>2011</u>
January 1	8,022,005	8,703,813
Provision for the year	5,907,136	3,760,562
Reversed during the year	<u>(4,210,180)</u>	-
	<u>1,696,956</u>	3,760,562
Paid during the year	<u>(3,811,825)</u>	(4,442,370)
December 31	<u>5,907,136</u>	<u>8,022,005</u>

**20.3 Zakat status**

The Company filed its zakat returns up to December 31, 2011 and obtained unrestricted zakat certificates.

During the year ended December 31, 2012, the zakat provision was reduced by SR 4,210,180 as the Company's management believes that the remaining zakat provision balance after the reduction of SR 5,907,136 as at December 31, 2012 will be sufficient to meet the Company's zakat liabilities for the years up to December 31, 2012.

**21 EARNINGS PER SHARE**

Earnings per share has been computed for the year ended 2012 by dividing the income from operations, non-operating income and net income for the year over the number of outstanding shares amounting to 34,396,721 shares (2011: 30,756,165 shares).

**22 CONTINGENCIES AND COMMITMENTS**

As at December 31, 2012, the Company is committed and contingently liable for the remaining price of land in the west of Riyadh for an amount of SR 83 million and for letters of bank guarantee amounting to SR 7,424,123 (2011: SR 6,924,449).

**DALLAH HEALTHCARE HOLDING COMPANY****(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2012**

(All amounts in Saudi Riyals unless otherwise stated)

**23 SEGMENT INFORMATION**

The Company consists of the following main business segments:

- a) Dallah Hospital
- b) Medicine Warehouse (Dallah Pharma)
- c) Head office

The Company operates inside the Kingdom of Saudi Arabia only.

The Company's operations consist of the following business segments:

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

**Medicine Warehouse segment (Dallah Pharma)** - The objectives of the segment are to import, distribute, wholesale and retail of medicals.

**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 hospital equipments.

The following is a summary of selected financial information as at December 31 and for the year ended December 31, to the above-mentioned business segments:

	<b>2012</b>			
	<b>Dallah Hospital</b>	<b>Dallah Pharma</b>	<b>Head Office</b>	<b>Total</b>
Operating revenues	565,660,819	49,352,441	22,044,789	<b>637,058,049</b>
Cost of operating	(354,032,973)	(24,473,850)	(14,940,877)	<b>(393,447,700)</b>
Gross profit	211,627,846	24,878,591	7,103,912	<b>243,610,349</b>
Net income (loss) for the year	130,774,076	13,408,095	*(10,822,214)	<b>133,359,957</b>
Total assets	652,891,995	46,084,015	573,767,583	<b>1,272,743,593</b>
Total liabilities	127,655,236	11,450,801	18,055,607	<b>157,161,644</b>

(\*) During 2012, Head Office expenses amounted to SR 15,874,506 while revenues amounted SR 1,540,992.

	<b>2011</b>			
	<b>Dallah Hospital</b>	<b>Dallah Pharma</b>	<b>Head Office</b>	<b>Total</b>
Operating revenues	478,765,958	31,643,725	16,934,032	<b>527,343,715</b>
Cost of operating	(305,195,272)	(20,073,430)	(12,190,475)	<b>(337,459,177)</b>
Gross profit	173,570,686	11,570,295	4,743,557	<b>189,884,538</b>
Net income for the year	108,136,341	5,054,902	*210,181	<b>113,401,424</b>
Total assets	547,243,395	39,688,213	110,755,381	<b>697,686,989</b>
Total liabilities	111,686,236	15,347,933	101,867,487	<b>228,901,656</b>

(\*) During 2011, Head Office expenses amounted to SR 14,080,686 while revenues amounted SR 12,209,108.

**24 SUBSEQUENT EVENTS**

Subsequent to the date of these financial statements at 14 Rabea' Awal 1434H (corresponding to January 16, 2013) a contract was signed for purchase 100% of Al Dawara Factory for Pharmaceuticals and Herbal and Cosmetics, the factory is located in Jeddah Industrial Area with a total amount of SR 38 million.

At 10 Rabea' Thani 1434H (corresponding to February 20, 2013), the Company signed a contract for the construction structure of the expansion project for Dallah Hospital out-patient clinics in Riyadh at a cost of SR 26.5 million of the aggregate expected cost for this expansion amounting to SR 72 million. Completion of this expansion is expected within 20 months from the contract signing date.

On 13 Rabea' Alakhar 1434H (corresponding to February 23, 2013), the Board of Directors recommended a distribution of cash dividends to the Company's shareholders for the fiscal year 2012 in the total amount of SR 70.8 million at SR 1.5 per share. The distribution will be approved by the shareholders in their next General Assembly meeting.