

**Al-Mashrik Contracting Company  
(A Saudi Closed Joint Stock Company)**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2017**



**Ernst & Young & Co. (Certified Public Accountants)**  
**General Partnership**  
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**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF AL-MASHRIK CONTRACTING COMPANY  
(A SAUDI CLOSED JOINT STOCK COMPANY)**

**Opinion**

We have audited the financial statements of Al-Mashrik Contracting Company - A Saudi Closed Joint Stock Company - (the "Company"), which comprise the balance sheet as at 31 December 2017, and the statement of income, statement of cash flows and statement of changes in shareholders' equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

**Basis for Opinion**

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

**Responsibilities of Management and Board of Directors for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and the provisions of Companies' Law and Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Company's Board of Directors is responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF AL-MASHRIK CONTRACTING COMPANY  
(A SAUDI CLOSED JOINT STOCK COMPANY) - continued**

**Auditor's Responsibilities for the Audit of the Financial Statements - continued**

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Company's Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

for Ernst & Young



Yousef Al Mubarak  
Certified Public Accountant  
License No. (427)



Riyadh: 15 Safar 1440H  
(24 October 2018)



Al-Mashrik Contracting Company  
(A Saudi Closed Joint Stock Company)

BALANCE SHEET

As at 31 December 2017

	Notes	31 December 2017 SR	31 December 2016 SR
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Bank balances and cash		606,988	6,193,513
Accounts receivable and prepayments	3	47,833,981	34,544,666
Unbilled revenue	4	29,981,175	29,210,612
Inventories		2,163,708	2,304,130
<b>TOTAL CURRENT ASSETS</b>		<b>80,585,852</b>	<b>72,252,921</b>
<b>NON-CURRENT ASSETS</b>			
Amounts due from related parties	5	36,094,939	33,795,170
Property and equipment	6	152,568,401	156,513,978
<b>TOTAL NON-CURRENT ASSETS</b>		<b>188,663,340</b>	<b>190,309,148</b>
<b>TOTAL ASSETS</b>		<b>269,249,192</b>	<b>262,562,069</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Bank overdrafts	8	14,787,729	18,302,207
Accounts payable and accruals	7	120,681,300	108,686,078
Short term loans	8	7,498,428	5,746,202
Current portion of long term loans	8	-	7,700,000
Obligation under capital lease - current portion	9	780,166	791,835
Zakat payable	10	152,029	191,505
<b>TOTAL CURRENT LIABILITIES</b>		<b>143,899,652</b>	<b>141,417,827</b>
<b>NON-CURRENT LIABILITIES</b>			
Obligation under capital lease	9	-	461,811
Amounts due to related parties	5	5,207,363	3,472,500
Employees' terminal benefits		9,919,809	10,365,611
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>15,127,172</b>	<b>14,299,922</b>
<b>TOTAL LIABILITIES</b>		<b>159,026,824</b>	<b>155,717,749</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	11	20,000,000	20,000,000
Statutory reserve		15,000,000	15,000,000
Shareholders' contribution	5	72,119,578	70,100,755
Retained earnings		3,102,790	1,743,565
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>110,222,368</b>	<b>106,844,320</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>269,249,192</b>	<b>262,562,069</b>

The attached notes from 1 to 21 form part of these financial statements.

Al-Mashrik Contracting Company  
(A Saudi Closed Joint Stock Company)

STATEMENT OF INCOME

For the year ended 31 December 2017

	<i>Notes</i>	<i>31 December 2017 SR</i>	<i>For the period from 31 December 2015 to 31 December 2016 SR</i>
Revenue		42,230,914	60,227,061
Cost of revenue		(28,249,250)	(46,716,485)
<b>GROSS PROFIT</b>		<b>13,981,664</b>	<b>13,510,576</b>
General and administrative expenses	12	(11,819,760)	(11,344,401)
<b>INCOME FROM MAIN OPERATIONS</b>		<b>2,161,904</b>	<b>2,166,175</b>
Other income, net	13	1,762,979	2,568,531
Financial charges	8&9	(2,499,436)	(2,777,853)
<b>INCOME BEFORE ZAKAT</b>		<b>1,425,447</b>	<b>1,956,853</b>
Zakat	10	(66,222)	(100,429)
<b>NET INCOME FOR THE YEAR/PERIOD</b>		<b>1,359,225</b>	<b>1,856,424</b>
<b>EARNINGS PER SHARE:</b>			
Attributed to income from main operations	15	1.08	1.08
Attributed to net income for the year/period	15	0.68	0.93

The attached notes from 1 to 21 form part of these financial statements.

Al-Mashrik Contracting Company  
(A Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	31 December 2017 SR	<i>For the period From 31 December 2015 to 31 December 2016 SR</i>
<b>OPERATING ACTIVITIES</b>		
Income before zakat	1,425,447	1,956,853
<b>Adjustments for:</b>		
Depreciation	4,127,533	4,832,714
Provision for employees' terminal benefits	1,178,438	2,173,184
Gain on disposal of property and equipment	(75,850)	-
	<u>6,655,568</u>	<u>8,962,751</u>
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable and prepayments	(13,289,315)	22,160,676
Unbilled revenue	(770,563)	11,400,194
Inventories	140,422	256,436
Accounts payable and accruals	11,995,222	(3,380,839)
	<u>4,731,334</u>	<u>39,399,218</u>
Cash from operations	4,731,334	39,399,218
Employees' terminal benefits paid	(1,624,240)	(2,475,263)
Zakat paid	(105,698)	-
	<u>3,001,396</u>	<u>36,923,955</u>
Net cash from operating activities	3,001,396	36,923,955
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(187,957)	(1,676,461)
Proceeds from disposal of property and equipment	81,851	-
	<u>(106,106)</u>	<u>(1,676,461)</u>
Net cash used in investing activities	(106,106)	(1,676,461)
<b>FINANCING ACTIVITIES</b>		
Shareholders' contribution	2,018,823	(5,986,011)
Related parties balances, net	(564,906)	(6,124,871)
Bank overdrafts, net	(3,514,478)	(5,847,253)
Short term loans, net	1,752,226	(8,213,436)
Long term loans, net	(7,700,000)	(12,930,000)
Obligation under capital lease	(473,480)	(173,404)
	<u>(8,481,815)</u>	<u>(39,274,975)</u>
Net cash used in financing activities	(8,481,815)	(39,274,975)
<b>DECREASE IN BANK BALANCES AND CASH</b>	<b>(5,586,525)</b>	<b>(4,027,481)</b>
Bank balances and cash at the beginning of the year/period	6,193,513	10,220,994
<b>BANK BALANCES AND CASH AT THE END OF THE YEAR/PERIOD</b>	<b>606,988</b>	<b>6,193,513</b>

The attached notes from 1 to 21 form part of these financial statements.

Al-Mashrik Contracting Company  
(A Saudi Closed Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
For the year ended 31 December 2017

	<i>Share capital SR</i>	<i>Statutory reserve SR</i>	<i>Shareholders' contribution SR</i>	<i>Retained earnings SR</i>	<i>Total SR</i>
Balance at 30 December 2015	20,000,000	15,000,000	76,086,766	(112,859)	110,973,907
Net movement during the period	-	-	(5,986,011)	-	(5,986,011)
Net income for the period	-	-	-	1,856,424	1,856,424
Balance at 31 December 2016	20,000,000	15,000,000	70,100,755	1,743,565	106,844,320
Net movement during the year	-	-	2,018,823	-	2,018,823
Net income for the year	-	-	-	1,359,225	1,359,225
<b>Balance at 31 December 2017</b>	<b>20,000,000</b>	<b>15,000,000</b>	<b>72,119,578</b>	<b>3,102,790</b>	<b>110,222,368</b>

The attached notes from 1 to 21 form part of these financial statements.



# Al-Mashrik Contracting Company (A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS  
31 December 2017

## 1 ACTIVITIES

Al-Mashrik Contracting Company (the "Company") is a Saudi Closed Joint Stock Company, registered in the Kingdom of Saudi Arabia under commercial registration numbered 1010008375 and dated on 1 Rajab 1395H (corresponding to 11 July 1975). The Company is engaged in building contracting, road and dam works, water and sewage works, electrical and electronic works, garden landscaping, maintenance of buildings, roads, dams, gardens and parks, maintenance of medical centers, wholesale and retail trade in equipment, city cleaning and mechanical works.

Pursuant to The Ministry of Commerce and Investment's ministerial resolution number 76/Q dated 20 Rabi Awal 1437H (corresponding to 31 December 2015), the Company was converted from a Limited Liability Company to a Saudi Closed Joint Stock Company. The Company operates through the following branches:

<i>Branch</i>	<i>Commercial Registration No.</i>	<i>Date</i>
Mecca	4031025407	14 Sha'aban 1412H (corresponding to 18 February 1992)
Riyadh	1010296597	22 Dhul-Qadah 1431H (corresponding to 30 October 2010)

The Company owns equity interest in the following companies:

	Effective ownership	
	31 December 2017	31 December 2016
Al-Tawleed for Power and Energy Company (*)	70%	70%
Biatel Arabia Company	70%	70%
Al-Mashrik Electromechanical Company (*)	50%	50%

(\*) The liquidator has been appointed for those subsidiaries and the liquidation is in progress.

These financial statements does not include the financial statements of above subsidiaries as these companies are under liquidation and the Company does not exercise any power to govern the financial and operating policies over them. The investment balance is nil (2016: nil).

## 2 SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

### Accounting convention

The financial statements are prepared under the historical cost convention.

### Use of estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires the use of 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 year. Although these estimates are based on the management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

### Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimated allowance for doubtful accounts is made when collection of the amount is no longer probable. Bad debts are written off as incurred.

### Inventories

Inventories are stated at lower of cost and net realizable value. The inventories items are used for the projects and are not intended for resale.



Al-Mashrik Contracting Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2017

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property and equipment**

Property and equipment are initially recorded at cost and are stated at cost less accumulated depreciation and any impairment in value. Lands is not depreciated. The cost less estimated residual value of other property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use. The excess of carrying value over the estimated recoverable amount is charged to the statement of income.

Expenditure for repair and maintenance are charged to the statement of income. Improvements, if any that increase the value or materially extend the life of the related assets are capitalized.

**Impairment and uncollectibility of financial assets**

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the statement of income.
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

**Accounts payable and accruals**

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**Provisions**

Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

**Zakat**

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. The provision is charged to the statement of income.

**Employees' terminal benefits**

Provision is made for amounts payable under the Saudi Arabian Labor Law applicable to employees' accumulated periods of service at the balance sheet date.

**Statutory reserve**

In accordance with Saudi Arabian Regulations for Companies, the Company must set aside 10% of its net income for the year in each year until it has built up a reserve equal to 30% of the share capital. This having been achieved, the Company has resolved to discontinue such transfers. The reserve is not available for distribution.

**Revenue**

Revenue is recognized based on the invoiced and accrued value of work executed during the year. For long term contracts, revenue is recognized on the basis of costs incurred to date, using the percentage of completion method. In the case of unprofitable contracts, provision is made for foreseeable losses in full.

Other income is recognized when earned.

**Expenses**

All expenses other than cost of revenue are classified as general and administrative expenses

Al-Mashrik Contracting Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2017

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Leases**

Capital leases are capitalized at the present value of the minimum lease payments at the inception of the lease term. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leases assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Operating lease payments are recognized as an expense in the statement of income on a straight -line basis over the lease term.

**Segmental reporting**

A segment is a distinguishable component of the Company whether in producing/selling products and providing services (business segment), or in producing/selling products or providing services within a particular economic environment (geographical segment), which is subject to the risks and rewards that are different from those of other segments. The business segment was adopted by the Company as it carries out all of its activities in the Kingdom of Saudi Arabia.

**Foreign currencies**

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of income.

**3 ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<i>31 December</i> <i>2017</i> <i>SR</i>	<i>31 December</i> <i>2016</i> <i>SR</i>
Accounts receivable	22,148,863	14,742,997
Advances to suppliers and subcontractors	15,999,417	10,749,611
Margin on letters of guarantee and credits	7,666,300	6,439,350
Prepaid expenses	440,968	710,966
Employees' receivables	422,837	745,675
Other receivables	1,155,596	1,156,067
	<u>47,833,981</u>	<u>34,544,666</u>

Included in accounts receivable are amounts totaling SR 5,527,842 (31 December 2016: SR 4,542,356) due from government entities. No accounts receivable balances considered impaired at 31 December 2017 and 31 December 2016.

**4 UNBILLED REVENUE**

This represents revenue earned but not yet billed as at the balance sheet date. These amounts will be billed in the subsequent year.



Al-Mashrik Contracting Company  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

**5 RELATED PARTIES TRANSACTIONS AND BALANCES**

The following are the details of major transactions with related parties during the year/period and the balances at the end of the year/period:

**a) Amounts due from related parties:**

<i>Related party</i>	<i>Nature of relationship</i>	<i>31 December 2017 SR</i>	<i>31 December 2016 SR</i>
Al-Marafik Construction Company	Affiliate	30,383,321	31,436,841
Novatel Company for Communications and Information Technology	Affiliate	4,175,694	822,405
Al-Tawleed for Power and Energy Company	Unconsolidated subsidiary	1,535,924	1,535,924
At the end of the year/period		<u>36,094,939</u>	<u>33,795,170</u>

**b) Amounts due to related parties:**

<i>Related party</i>	<i>Nature of relationship</i>	<i>31 December 2017 SR</i>	<i>31 December 2016 SR</i>
Dr. Abdullah Al Zamil	Key management personnel	3,472,500	3,472,500
Elaf International Trading Company	Affiliate	1,734,863	-
At the end of the year/period		<u>5,207,363</u>	<u>3,472,500</u>

**c) Shareholders' contribution:**

Shareholders' contribution represents funds injected by the shareholders to support the operations of the Company. This balance has no repayment date and it does not carry any commission charges.

**d) Transactions with related parties during the year/period:**

<i>Related party</i>	<i>Nature of transaction</i>	<i>Amount of transaction</i>	
		<i>31 December 2017 SR</i>	<i>For the period from 31 December 2015 to 31 December 2016 SR</i>
Affiliate	Financing made	2,299,769	4,743,901
	Expenses charged from affiliates	1,734,863	199,995
Unconsolidated subsidiary	Collection	-	1,023,948
Shareholders	Repayment of financing provided to the Company, net	2,044,066	(5,986,011)
Key management personnel	Finance	-	490,000

Amounts due from/to related parties are shown on the balance sheet.



Al-Mashrik Contracting Company  
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NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2017

**6 PROPERTY AND EQUIPMENT**

The estimated useful lives of the assets for the calculation of depreciation are as follows:

	Lands(*) SR	Buildings and improvements SR	Machinery and equipment(**) SR	Furniture and fixtures SR	Motor vehicles SR	Office equipment SR	Software SR	31 December 2017 SR	31 December 2016 SR
<b>Cost:</b>									
At the beginning of the year/period	144,772,353	16,751,648	88,027,615	5,156,728	30,180,353	4,043,819	816,372	289,748,888	288,072,427
Additions	-	7,897	-	17,958	85,580	76,522	-	187,957	1,676,461
Disposals	-	-	-	-	(505,950)	-	-	(505,950)	-
At the end of the year/period	144,772,353	16,759,545	88,027,615	5,174,686	29,759,983	4,120,341	816,372	289,430,895	289,748,888
<b>Accumulated depreciation:</b>									
At the beginning of the year/period	-	16,108,192	78,757,512	5,009,483	29,822,621	3,523,498	13,604	133,234,910	128,402,196
Charge for the year/period	-	190,778	3,489,119	93,005	40,103	151,254	163,274	4,127,533	4,832,714
Disposals	-	-	-	-	(499,949)	-	-	(499,949)	-
At the end of the year/period	-	16,298,970	82,246,631	5,102,488	29,362,775	3,674,752	176,878	136,862,494	133,234,910
Net book amounts:									
At 31 December 2017	144,772,353	460,575	5,780,984	72,198	397,208	445,589	639,494	152,568,401	
At 31 December 2016	144,772,353	643,456	9,270,103	147,245	357,732	520,321	802,768		156,513,978

Al-Mashrik Contracting Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

**6 PROPERTY AND EQUIPMENT (continued)**

(\*) The title deeds of lands with a cost of SR 139,434,853 are registered in the name of a shareholder for the benefit of the Company. Also, lands with a cost of SR 105 million (31 December 2016: SR 105 million) are mortgaged to local banks as a security against bank facilities (note 8).

(\*\*) Machinery and equipment include items with a net book value of SR 800,547 (31 December 2016: SR 1,306,932) which were purchased under a capital lease agreements (note 9).

Depreciation charge for the year/period was allocated as follows:

	<i>31 December</i> 2017 SR	<i>For the period from</i> 31 December 2015 to 31 December 2016 SR
Cost of revenue	3,342,047	4,646,978
General and administrative expenses (note 12)	785,486	185,736
	<u>4,127,533</u>	<u>4,832,714</u>

**7 ACCOUNTS PAYABLE AND ACCRUALS**

	<i>31 December</i> 2017 SR	<i>31 December</i> 2016 SR
Advances from customers	56,344,862	46,159,855
Trade and subcontractor payables	30,307,248	31,093,808
Accrued employee benefits	18,059,128	14,503,574
Retention payables	11,459,485	11,381,096
Accrued expenses	2,467,026	3,857,413
Billing in excess of work executed	2,043,551	1,690,332
	<u>120,681,300</u>	<u>108,686,078</u>

**8 SHORT TERM AND LONG TERM LOANS**

*a) Short term loans and banks overdrafts*

The Company has obtained short term loans and banks overdrafts from local banks to finance its working capital requirements. These facilities are secured by lands (note 6), personal guarantees from the shareholders and an assignment of certain projects' proceeds to the banks. These facilities are subject to commercial commission at prevailing market rates.

*b) Long term loans*

The Company has obtained long term loans from local banks to finance its projects. These facilities are secured by assignment of certain projects' proceeds to the bank, and are payable on installments commenced from 30 November 2013. The term loans are subject to commercial commission at prevailing market rates.

Al-Mashrik Contracting Company  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

**9 OBLIGATION UNDER CAPITAL LEASE**

During 2015, the Company acquired machinery and equipment under capital lease agreement. The lease payments under such agreements are due made on monthly installments. The amounts of future payments under the lease were as follows:

	<i>31 December 2017 SR</i>	<i>31 December 2016 SR</i>
Minimum lease payments	884,481	1,547,840
Less: estimated amounts representing finance charges	(104,315)	(294,194)
	<u>780,166</u>	<u>1,253,646</u>
Current maturity shown under current liabilities	(780,166)	(791,835)
	<u>-</u>	<u>461,811</u>

**Maturity profile**

Minimum lease payment falling due during years ending:

	<i>31 December 2017 SR</i>	<i>31 December 2016 SR</i>
2017	-	1,050,320
2018	884,481	497,520
	<u>884,481</u>	<u>1,547,840</u>

**10 ZAKAT**

**Charge for the year/period**

Zakat charge for the year/period amounting to SR 66,222 (for the period ended 31 December 2016: SR 100,429) consists of current year/period provision.

The current year/period provision is based on the following:

	<i>31 December 2017 SR</i>	<i>31 December 2016 SR</i>
Equity	105,100,755	105,100,755
Opening provisions and other adjustments	11,305,909	17,237,149
Book value of long term assets	(152,568,401)	(156,513,978)
	<u>(36,161,737)</u>	<u>(34,176,074)</u>
Adjusted income for the year/period	2,648,885	4,017,178
Zakat base	<u>2,648,885</u>	<u>4,017,178</u>

The differences between the financial and the zakat results are mainly due to provisions, which are not allowed in the calculation of the adjusted income for the year/period.



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**10 ZAKAT (continued)**

**Movement in zakat provision**

The movement in the zakat provision was as follows:

	<b>31 December 2017 SR</b>	<i>For the period from 31 December 2015 to 31 December 2016 SR</i>
At the beginning of the year/period	191,505	91,076
Provided during the year/period	66,222	100,429
Payments during the year/period	<b>(105,698)</b>	-
At the end of the year/period	<b>152,029</b>	191,505

**Status of assessments**

The Company has filed its zakat returns with the General Authority of Zakat and Tax (the "GAZT") for all years up to 2016, and received zakat certificate. The final assessments have been completed for years up to 2006. The GAZT has raised the assessment for 2007 and claimed additional zakat liabilities of SR 2.3 million. The Company has filed an appeal against this assessment with the GAZT. The GAZT has rejected the appeal, and the Company has requested to refer the appeal to Preliminary Zakat and Tax Appeal Committee, which is still pending. The Company has objected against these assessments, and the management believes that no material liabilities are likely to arise. Accordingly, no provisions have been made against the claims under appeals. Zakat assessments for the years 2008 to 2016 have not yet been raised by the GAZT.

**11 SHARE CAPITAL**

Share capital is divided into 2,000,000 shares (31 December 2016: 2,000,000 shares) of SR 10 each.

**12 GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>31 December 2017 SR</b>	<i>For the period from 31 December 2015 to 31 December 2016 SR</i>
Employees' salaries and related benefits	9,653,562	9,449,869
Professional fees	964,068	1,027,944
Depreciation (note 6)	785,486	185,736
Utilities	160,547	155,791
Office equipment maintenance	116,552	45,042
Subscription and fees	63,504	376,703
Printing and stationery	36,964	32,374
Vehicle expenses	21,847	69,442
Others	17,230	1,500
	<b>11,819,760</b>	11,344,401

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31 December 2017

**13 OTHER INCOME, NET**

	<b>31 December 2017 SR</b>	<i>For the period from 31 December 2015 to 31 December 2016 SR</i>
Rental income	1,533,392	2,318,945
Gain on disposal of property and equipment	75,850	-
Miscellaneous	153,737	249,586
	<u>1,762,979</u>	<u>2,568,531</u>

**14 CONTINGENT LIABILITIES**

**Guarantees**

The Company's bankers have issued on its behalf, letters of guarantee, credit and bid bounds amounting to SR 95,520,024 (31 December 2016: SR 90,238,646) during the normal course of business.

**Legal claims**

The Company is involved in litigation matters in the ordinary course of business, which are being defended. While the ultimate results of these matters cannot be determined with certainty, the management does not expect that they will have a material adverse effect on the financial statements of the Company.

**15 EARNINGS PER SHARE**

Earnings per share are calculated by dividing income from main operations/net income for the year/period by the weighted average number of outstanding shares at the end of the year/period.

**16 SEGMENT INFORMATION**

A segment is a distinguishable component of the Company that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

The Company is organized into the following main business segments:

- a) **Construction contracts:** engaged in construction of buildings and road maintenance work
- b) **Crusher and Asphalt:** engaged in production of asphalt, fill, and other crushed Products.

	<b>Construction contracts SR</b>	<b>Crusher and Asphalt SR</b>	<b>Total SR</b>
<b><u>For the year ended 31 December 2017</u></b>			
Revenue	22,538,842	19,692,072	42,230,914
Gross profit	7,809,554	6,172,110	13,981,664
Total assets	256,005,940	13,243,252	269,249,192
Total liabilities	154,082,083	4,944,741	159,026,824
<b><u>For the period ended 31 December 2016</u></b>			
Revenue	38,096,092	22,130,969	60,227,061
Gross profit	7,659,570	5,851,006	13,510,576
Total assets	252,580,691	9,981,378	262,562,069
Total liabilities	148,196,175	7,521,574	155,717,749

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**17 RISK MANAGEMENT**

**Commission rate risk**

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market commission rates. The Company is subject to commission rate risk on its commission bearing liabilities, including bank overdrafts and loans. The Company manages its exposure to commission rate risk by continuously monitoring movements in commission rates.

**Credit risk**

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. As at the balance sheet date, the majority of trade receivables are from government contracts. Cash is placed with banks with sound credit ratings.

**Liquidity risk**

Liquidity risk is the risk that the Company 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. The Company manages its liquidity risk by ensuring that bank facilities and adequate support from the shareholders are available.

**Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is not subject to fluctuations in foreign exchange as most of the significant transactions during the year were undertaken in Saudi Riyals.

**18 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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. Financial instruments comprise of financial assets and financial liabilities.

The Company's financial assets consist of cash and bank balances, receivables and amounts due from related parties. Its financial liabilities consist of accounts payable, bank overdrafts, loans, obligation under capital lease and amounts due to related parties.

The fair values of financial instruments are not materially different from their carrying values.

**19 KEY SOURCES OF ESTIMATION UNCERTAINTY**

**Contract revenue**

The Company's management determines the estimated cost to complete the projects at inception. It also determines the estimated cost to complete periodically. Contract revenue is recognized using the percentage of completion method as construction progresses. The percentage of completion is made by reference to the stage of completion of projects and contracts determined based on the proportion of contract costs incurred to date and the estimated costs to complete. In the case of unprofitable contracts, provision is made in full for foreseeable losses.

**20 APPROVAL OF THE FINANCIAL STATEMENTS**

The Board of Directors has approved these financial statements on 15 Safar 1440H (corresponding to 24 October 2018).

**21 COMPARATIVE FIGURES**

Certain of the prior period amounts have been reclassified to conform with the presentation in the current year.