

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

FINANCIAL STATEMENTS

31 DECEMBER 2018



Ernst & Young & Co. (Certified Public Accountants)
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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 statement of financial position as at 31 December 2018, and the statement of comprehensive 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 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standard for Small and Medium-Sized Entities ("IFRS for SMEs") that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by Saudi Organization for Certified Public Accountants.

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 International Financial Reporting Standard for Small and Medium-Sized Entities ("IFRS for SMEs") that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by Saudi Organization for Certified Public Accountants 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 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: 27 Jumada Alawal 1441H
(22 January 2020)

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

FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 SR	2017 (Note 5) SR
ASSETS			
CURRENT ASSETS			
Bank balances and cash		1,389,832	606,988
Accounts receivable and prepayments	6	78,109,902	47,833,981
Unbilled revenue	7	33,365,412	29,981,175
Inventories	8	4,178,796	2,163,708
TOTAL CURRENT ASSETS		117,043,942	80,585,852
NON-CURRENT ASSETS			
Amounts due from related parties	9	37,226,970	36,094,939
Property and equipment	10	160,129,573	152,568,401
TOTAL NON-CURRENT ASSETS		197,356,543	188,663,340
TOTAL ASSETS		314,400,485	269,249,192
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Bank overdrafts	12	14,865,681	14,787,729
Accounts payable and accruals	11	136,151,026	120,681,300
Short term loans	12	19,938,885	7,498,428
Obligation under capital lease - current portion	13	5,147,415	780,166
Zakat payable	14	326,790	152,029
TOTAL CURRENT LIABILITIES		176,429,797	143,899,652
NON-CURRENT LIABILITIES			
Obligation under capital lease	13	2,960,789	-
Amounts due to related parties	9	4,561,160	5,207,363
Employees' terminal benefits	15	10,841,619	9,845,917
TOTAL NON-CURRENT LIABILITIES		18,363,568	15,053,280
TOTAL LIABILITIES		194,793,365	158,952,932
SHAREHOLDERS' EQUITY			
Share capital	16	20,000,000	20,000,000
Statutory reserve		15,000,000	15,000,000
Shareholders' contribution	9	74,888,354	72,119,578
Retained earnings		9,718,766	3,176,682
TOTAL SHAREHOLDERS' EQUITY		119,607,120	110,296,260
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		314,400,485	269,249,192

The attached notes from 1 to 23 form part of these financial statements.

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

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Notes	2018 SR	2017 (Note 5) SR
Revenue		108,388,458	42,230,914
Cost of revenue		(86,500,644)	(28,427,517)
GROSS PROFIT		21,887,814	13,803,397
General and administrative expenses	17	(13,776,477)	(11,819,760)
INCOME FROM MAIN OPERATIONS		8,111,337	1,983,637
Other income, net	18	1,994,861	1,762,979
Financial charges	12&13	(2,424,791)	(2,499,436)
INCOME BEFORE ZAKAT		7,681,407	1,247,180
Zakat	14	(234,590)	(66,222)
NET INCOME FOR THE YEAR		7,446,817	1,180,958
OTHER COMPREHENSIVE INCOME:			
<i>Other comprehensive income not to be reclassified to net income in subsequent periods:</i>			
Actuarial (losses) gain on employee defined benefits liabilities	15	(904,733)	272,330
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		6,542,084	1,453,288
EARNINGS PER SHARE:			
Attributed to income from main operations	20	4.06	0.99
Attributed to net income for the year	20	3.72	0.59

The attached notes from 1 to 23 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 2018

	2018 SR	2017 (Note 5) SR
OPERATING ACTIVITIES		
Income before zakat	7,681,407	1,247,180
Adjustments for:		
Depreciation	2,457,861	4,127,533
Provision for employees' terminal benefits	1,207,322	1,356,705
Gain on disposal of property and equipment	(354,403)	(75,850)
	<u>10,992,187</u>	<u>6,655,568</u>
Changes in operating assets and liabilities:		
Accounts receivable and prepayments	(30,275,921)	(13,289,315)
Unbilled revenue	(3,384,237)	(770,563)
Inventories	(2,015,088)	140,422
Accounts payable and accruals	15,469,726	11,995,222
Cash (used in) from operations	(9,213,333)	4,731,334
Employees' terminal benefits paid	(1,116,353)	(1,624,240)
Zakat paid	(59,829)	(105,698)
Net cash (used in) from operating activities	<u>(10,389,515)</u>	<u>3,001,396</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(10,373,436)	(187,957)
Proceeds from disposal of property and equipment	708,806	81,851
Net cash used in investing activities	<u>(9,664,630)</u>	<u>(106,106)</u>
FINANCING ACTIVITIES		
Shareholders' contribution	2,768,776	2,018,823
Related parties balances, net	(1,778,234)	(564,906)
Bank overdrafts, net	77,952	(3,514,478)
Short term loans, net	12,440,457	1,752,226
Long term loans, net	-	(7,700,000)
Obligation under capital lease	7,328,038	(473,480)
Net cash from (used in) financing activities	<u>20,836,989</u>	<u>(8,481,815)</u>
INCREASE (DECREASE) IN BANK BALANCES AND CASH	<u>782,844</u>	<u>(5,586,525)</u>
Bank balances and cash at the beginning of the year	606,988	6,193,513
BANK BALANCES AND CASH AT THE END OF THE YEAR	<u><u>1,389,832</u></u>	<u><u>606,988</u></u>

The attached notes from 1 to 23 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 2018

	Share capital SR	Statutory reserve SR	Shareholders' contribution SR	Retained earnings SR	Total SR
Balance at 1 January 2017 (Note 5)	20,000,000	15,000,000	70,100,755	1,723,394	106,824,149
Net movement during the year	-	-	2,018,823	-	2,018,823
Net income	-	-	-	1,180,958	1,180,958
Other comprehensive income	-	-	-	272,330	272,330
Total comprehensive income	-	-	-	1,453,288	1,453,288
Balance at 31 December 2017 (Note 5)	20,000,000	15,000,000	72,119,578	3,176,682	110,296,260
Net movement during the year	-	-	2,768,776	-	2,768,776
Net income	-	-	-	7,446,817	7,446,817
Other comprehensive income	-	-	-	(904,733)	(904,733)
Total comprehensive income	-	-	-	6,542,084	6,542,084
Balance at 31 December 2018	20,000,000	15,000,000	74,888,354	9,718,766	119,607,120

The attached notes from 1 to 23 form part of these financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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 registered address of the Company is, P.O. Box 6180, Riyadh Malaz 11442.

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	
	<i>31 December 2018</i>	<i>31 December 2017</i>
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 (2017: nil).

2 BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standard for Small and Medium-Sized Entities (“IFRS for SMEs”) issued by the International Accounting Standards Board (“IASB”), that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by Saudi Organization for Certified Public Accountants (“SOCPA”) (collectively referred to as “IFRS for SMEs as endorsed in KSA”). These are the Company’s first financial statements prepared in accordance with IFRS for SMEs as endorsed in KSA. Refer to Note 5 for further information.

Basis of measurement

These financial statements have been prepared under the historical cost convention.

Presentation and functional currency

The presentation and functional currency of the Company is Saudi Riyal.

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

NOTES TO THE FINANCIAL STATEMENTS
31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are as follows:

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when:

- (a) it expects to realise the asset, or intends to sell or consume it, in the entity's normal operating cycle;
- (b) it holds the asset primarily for the purpose of trading;
- (c) it expects to realise the asset within twelve months after the reporting date; or
- (d) the asset is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets are classified as non-current.

A liability is current when:

- (a) it expects to settle the liability in the entity's normal operating cycle;
- (b) it holds the liability primarily for the purpose of trading;
- (c) the liability is due to be settled within twelve months after the reporting date; or
- (d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after reporting date.

The Company classifies all other liabilities as non-current.

Accounts receivable

Recognized in the original amount of the invoice. Subsequently, balances of debtors are measured at amortized cost using the effective commission method. At the end of each financial period, the carrying amounts of trade receivables and prepayments are reviewed. A gain or loss is recognized in the statement of comprehensive income. Bad debts are written off when incurred.

Inventories

Inventories are stated at lower of cost and net realizable value. Cost is determined on a weighted average basis. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the statement of comprehensive income.

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.

Buildings and improvements	10 to 20 years	Motor vehicles	4 to 8 years
Machinery and equipment	5 to 20 years	Office equipment	2 to 10 years
Furniture and fixtures	4 to 10 years	Software	5 years

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.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included within other income in the statement of comprehensive income.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities

Financial assets carried in the statement of financial position principally include bank balances and cash, receivables, and amounts due from related parties. Financial liabilities include accounts payable, bank overdraft, loans, obligation under capital lease, and amounts due to related parties.

Impairment and uncollectibility of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of comprehensive 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 recognised in the statement of comprehensive income.
- (b) For assets carried at amortised 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.

Impairment of non-financial assets

An assessment is made at each statement of financial position date to ensure that there is evidence of impairment. Where there is evidence of impairment, the recoverable amount of the asset (or the cash-generating unit) is estimated and compared to its carrying amount. If the recoverable amount is lower, the carrying amount of the asset is reduced to the estimated recoverable amount, and the impairment loss is immediately recognized in profit or loss in the statement of comprehensive income.

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 recognised when the Company has:

- A present legal or constructive obligation as a result of a past event,
- It is probable that an outflow of economic resources will be required to settle the obligation in the future, and
- The amount can be reliably estimated.

Zakat

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

Employees' terminal benefits

The Company operates a defined benefit scheme for its employees in accordance with labor regulations applicable in the Kingdom of Saudi Arabia. The liabilities are recognised in the statement of financial position at the reporting date. Defined benefits liabilities are the present value of the defined benefits obligations at the reporting date. The cost of providing the benefits under the defined benefits plan is determined using the projected unit credit method. Actuarial gains and losses are recognized in full in the period in which they occur in the statement of comprehensive income.

Interest expense is calculated by applying the discount rate to the net defined benefit liability. The Company recognises the following changes in the net defined benefit obligation under 'Cost of revenue General and administrative expenses' in the statement of comprehensive income.

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements, and
- Net interest expense or income.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 in statement of comprehensive income.

Capitalized leases assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating leases

Operating lease payments are recognized as an expense in the statement of comprehensive 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 financial position date. All differences are taken to the statement of comprehensive income.

4 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

4 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)

4.1 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material differences in the carrying amounts of assets and liabilities within the next financial period, are presented below. The Company used these assumptions and estimates on the basis available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing off the asset. The value in use calculation is based on a Discounted Cash Flow ("DCF") model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the Cash Generating Unit ("CGU") being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Long-term assumptions for Employees' defined benefits liabilities

Employees' defined benefits liabilities represent obligations that will be settled in the future and require assumptions to project obligations and fair values of plan assets, if any. Management is required to make further assumptions regarding variables such as discount rates, rate of salary increase and return on assets, mortality rates, employment turnover and future healthcare costs. Periodically, management of the Company consults with external actuaries regarding these assumptions. Changes in key assumptions can have a significant impact on the projected benefit obligations and/or periodic employee defined benefit costs incurred.

Estimated useful lives of property, plant and equipment

The Company's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation on a straight-line basis over their estimated useful lives. This estimate is determined after considering the expected usage of the asset or physical wear and tear.

Management reviews the useful lives and residual value of the assets at each annual reporting period and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Impairment of trade receivables

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision is applied according to the length of the past due.

Impairment of inventories

Inventories are held at the lower of cost or net realizable value. When inventories become old or obsolete, an estimate is made for their market 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 a provision applied according to the inventory type and the degree of ageing or obsolescence, based on anticipated selling prices.

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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

5 TRANSITION TO THE IFRS FOR SMEs AS ENDORSED IN KSA

5.1 Basis of transition to the IFRS for SMEs as endorsed in KSA

These financial statements for the year ended 31 December 2018 are the Company's first financial statements prepared in accordance with IFRS for SMEs as endorsed in KSA. For periods up to and including the year ended 31 December 2017, the Company prepared its financial statements in accordance with accounting standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Accordingly, the Company has prepared financial statements that comply with IFRS for SMEs as endorsed in KSA applicable as at 31 December 2018 as described in the summary of significant accounting policies. In preparing the financial statements, the Company's opening statement of financial position was prepared as at 1 January 2017, the Company's date of transition to IFRS for SMEs as endorsed in KSA.

5.2 Reconciliation

Upon transition to IFRS for SME as endorsed in KSA from the generally accepted accounting standards issued by Saudi Organization for Certified Public Accountants ("SOCPA"), no significant reconciliation affected the statement of financial position, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows as at 1 January 2017 and 31 December 2017.

5.2.1 Reconciliation of the statement of changes in shareholders' equity

	31 Decemebr 2017 <i>SR</i>	1 January 2017 <i>SR</i>
Total equity under SOCPA GAAP	110,222,368	106,844,320
Restatement of employees' defined benefits liabilities (A)	73,892	(20,171)
Total equity under IFRS for SMEs as endorsed in KSA	<u>110,296,260</u>	<u>106,824,149</u>

5.2.2 Reconciliation of the statement of comprehensive income

	31 December 2017 <i>SR</i>
Income for the year under SOCPA GAAP	1,359,225
Adjustment of employees' defined benefits liabilities (A)	(178,267)
Income for the year under IFRS for SMEs as endorsed in KSA	<u>1,180,958</u>
Other comprehensive income (A)	272,330
Total comprehensive income under IFRS for SMEs as endorsed in KSA	<u>1,453,288</u>

(A) Employees' defined benefits liabilities

Under SOCPA standards, the Company recorded its employees' defined benefits liability based on the labor laws regulatory requirements. In order to determine the liability under IFRS for SMEs as endorsed in KSA, the Company used the projected unit method in calculating the liability. Consequently, a decrease in the liability for the prior year has been recorded in the opening retained earnings and statement of comprehensive income for the year ended 31 December 2017.

5.2.3 Statement of cash flows

The transition from SOCPA GAAP to IFRS for SMEs as endorsed in KSA has not had a material impact on the statement of cash flows.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 December 2018

6 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2018 SR	2017 SR
Accounts receivable	56,948,189	22,148,863
Advances to suppliers and subcontractors	11,464,349	15,999,417
Margin on letters of guarantee and credits	7,666,300	7,666,300
Prepaid expenses	558,296	440,968
Employees' receivables	542,172	422,837
Other receivables	930,596	1,155,596
	<u>78,109,902</u>	<u>47,833,981</u>

Included in accounts receivable are amounts totaling SR 30,756,114 (2017: SR 5,527,842) due from government entities. No accounts receivable balances considered impaired at 31 December 2018 and 31 December 2017.

7 UNBILLED REVENUE

This represents revenue earned but not yet billed as at the statement of financial position date. These amounts will be billed in the subsequent year.

8 INVENTORIES

This account represents the value of the materials purchased for the implementation of Company's projects.

9 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>	2018 SR	2017 SR
Al-Marafik Construction Company	Affiliate	31,183,845	30,383,321
Novatel Company for Communications and Information Technology	Affiliate	4,507,201	4,175,694
Al-Tawleed for Power and Energy Company	Unconsolidated subsidiary	1,535,924	1,535,924
At the end of the year/period		<u>37,226,970</u>	<u>36,094,939</u>

b) Amounts due to related parties:

<i>Related party</i>	<i>Nature of relationship</i>	2018 SR	2017 SR
Dr. Abdullah Al Zamil	Key management personnel	3,472,500	3,472,500
Elaf International Trading Company	Affiliate	1,088,660	1,734,863
At the end of the year/period		<u>4,561,160</u>	<u>5,207,363</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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

9 RELATED PARTIES TRANSACTIONS AND BALANCES (continued)

d) Transactions with related parties during the year:

<i>Related party</i>	<i>Nature of transaction</i>	<i>Amount of transaction</i>	
		2018	2017
		SR	SR
Affiliate	Financing made	1,778,234	2,299,769
	Expenses charged from affiliates	-	1,734,863
Unconsolidated subsidiary	Collection	-	-
Shareholders	Repayment of financing provided to the Company, net	-	2,044,066
Key management personnel	Finance	-	-

Amounts due from/to related parties are shown on the statement of financial position.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 December 2018

10 PROPERTY AND EQUIPMENT

	Lands(*) SR	Buildings and improvements SR	Machinery and equipment(**) SR	Furniture and fixtures SR	Motor vehicles SR	Office equipment SR	Software SR	Project under progress SR	31 December 2018 SR	31 December 2017 SR
Cost:										
At the beginning of the year	144,772,353	17,223,178	85,274,071	4,740,443	31,756,263	4,848,215	816,372	-	289,430,895	289,748,888
Additions	-	6,068	9,821,732	17,854	-	37,782	-	490,000	10,373,436	187,957
Disposals	-	-	(4,088,188)	-	(970,557)	-	-	-	(5,058,745)	(505,950)
At the end of the year	144,772,353	17,229,246	91,007,615	4,758,297	30,785,706	4,885,997	816,372	490,000	294,745,586	289,430,895
Accumulated depreciation:										
At the beginning of the year	-	16,773,628	80,315,352	4,657,217	30,537,846	4,401,573	176,878	-	136,862,494	133,234,910
Charge for the year	-	139,692	1,848,480	51,803	94,851	159,759	163,276	-	2,457,861	4,127,533
Disposals	-	-	(3,741,785)	-	(962,557)	-	-	-	(4,704,342)	(499,949)
At the end of the year	-	16,913,320	78,422,047	4,709,020	29,670,140	4,561,332	340,154	-	134,616,013	136,862,494
Net book amounts:										
At 31 December 2018	144,772,353	315,926	12,585,568	49,277	1,115,566	324,665	476,218	490,000	160,129,573	
At 31 December 2017	144,772,353	449,550	4,958,719	83,226	1,218,417	446,642	639,494	-		152,568,401

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

10 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 2017: SR 105 million) are mortgaged to local banks as a security against bank facilities (note 12).

(**) During the year, the company's management changed the expected useful lives of some machines and equipment, as the useful lives of these machines and equipment were extended from 5-15 years to 5-20 years, and the company's management changed the estimated remaining residual value expected for some machines and equipment. The company considered this change as a change in the estimates, and this change was accounted for by a future effect and as a result of this a decrease in the depreciation expense for the year ended December 31, 2018 by about SAR 1.9 million. This change will have a similar effect on the Company's results in the coming years, until the end of the original expected useful lives.

(***) Machinery and equipment include items with a net book value of SR 9,011,754 (31 December 2017: SR 800,547) which were purchased under a capital lease agreement (note 13).

Depreciation charge for the year was allocated as follows:

	2018 SR	2017 SR
Cost of revenue	2,027,484	3,342,047
General and administrative expenses (note 17)	430,377	785,486
	<u>2,457,861</u>	<u>4,127,533</u>

11 ACCOUNTS PAYABLE AND ACCRUALS

	2018 SR	2017 SR
Advances from customers	59,551,515	56,344,862
Trade and subcontractor payables	36,280,471	30,307,248
Accrued employee benefits	23,550,567	18,059,128
Retention payables	12,077,407	11,459,485
Accrued expenses	4,691,066	2,467,026
Billing in excess of work executed	-	2,043,551
	<u>136,151,026</u>	<u>120,681,300</u>

12 SHORT TERM 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 10), 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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

13 OBLIGATION UNDER CAPITAL LEASE

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:

	2018 SR	2017 SR
Minimum lease payments	8,689,536	884,481
Less: estimated amounts representing finance charges	(581,332)	(104,315)
	<u>8,108,204</u>	<u>780,166</u>
Current maturity shown under current liabilities	(5,147,415)	(780,166)
	<u>2,960,789</u>	<u>-</u>

Maturity profile

Minimum lease payment falling due during years ending:

	2018 SR	2017 SR
2018	-	884,481
2019	5,618,858	-
2020	2,849,218	-
2021	221,460	-
	<u>8,689,536</u>	<u>884,481</u>

14 ZAKAT

Charge for the year

Zakat charge for the year amounting to SR 234,590 (2017: SR 66,222) consists of current year provision.

The current year provision is based on the following:

	2018 SR	2017 SR
Equity	110,296,260	105,100,755
Opening provisions and other adjustments	17,010,143	11,305,909
Book value of long-term assets	(160,129,573)	(152,568,401)
	<u>(32,823,170)</u>	<u>(36,161,737)</u>
Adjusted income for the year	9,383,600	2,648,885
Zakat base	<u>9,383,600</u>	<u>2,648,885</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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

14 ZAKAT (continued)

Movement in zakat provision

The movement in the zakat provision was as follows:

	2018 SR	2017 SR
At the beginning of the year	152,029	191,505
Provided during the year	234,590	66,222
Payments during the year	(59,829)	(105,698)
	<u>326,790</u>	<u>152,029</u>
At the end of the year	<u>326,790</u>	<u>152,029</u>

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 2017 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 2017 have not yet been raised by the GAZT.

15 EMPLOYEES' DEFINED BENEFITS LIABILITIES

The management has carried out an exercise to assess the present value of its defined benefit obligations at 31 December 2018 and 31 December 2017 in respect of employees' end-of-service benefits payable under relevant local regulations and contractual arrangements. The following tables summarise the components of net benefit expense recognised in the statement of comprehensive income and balances reported in the statement of financial position:

	2018 SR	2017 (Note5) SR
Present value of employees' defined benefits liabilities	<u>10,841,619</u>	<u>9,845,917</u>
	2018 SR	2017 (Note5) SR
Statement of comprehensive income charge		
Current service costs	870,573	974,946
Interest costs on liability	<u>336,749</u>	<u>381,759</u>
	2018 SR	2017 (Note5) SR
Reconciliation of present value of employees' defined benefits liabilities:		
At the beginning of the year	9,845,917	10,385,782
Current service costs	870,573	974,946
Interest costs on liability	336,749	381,759
Benefits paid	(1,116,353)	(1,624,240)
Re-measurement gain on defined benefit plans	904,733	(272,330)
	<u>10,841,619</u>	<u>9,845,917</u>
At the end of the year	<u>10,841,619</u>	<u>9,845,917</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

15 EMPLOYEES' DEFINED BENEFITS LIABILITIES (continued)

The significant assumptions used in determining employees' defined benefits liability are shown below:

	2018	2017
Discount rate	4.4%	3.9%
Future salary increment rate	2.5%	2.5%
Retirement age	60 years	60 years

16 SHARE CAPITAL

Share capital is divided into 2,000,000 shares (2017: 2,000,000 shares) of SR 10 each.

17 GENERAL AND ADMINISTRATIVE EXPENSES

	2018 SR	2017 SR
Employees' salaries and related benefits	10,768,574	9,653,562
Professional fees	1,321,789	964,068
Utilities	529,251	160,547
Office equipment maintenance	450,216	116,552
Depreciation (note 10)	430,377	785,486
Subscription and fees	92,841	63,504
Vehicle expenses	42,890	21,847
Printing and stationery	34,542	36,964
Others	105,997	17,230
	<u>13,776,477</u>	<u>11,819,760</u>

18 OTHER INCOME, NET

	2018 SR	2017 SR
Rental income	1,254,104	1,533,392
Gain on disposal of property and equipment	354,403	75,850
Miscellaneous	386,354	153,737
	<u>1,994,861</u>	<u>1,762,979</u>

19 CONTINGENT LIABILITIES

Guarantees

The Company's bankers have issued on its behalf, letters of guarantee, credit and bid bounds amounting to SR 102,598,156 (31 December 2017: SR 95,520,024) 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.

20 EARNINGS PER SHARE

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2018

21 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.

	Construction contracts SR	Crusher and Asphalt SR	Total SR
<u>For the year ended 31 December 2018</u>			
Revenue	103,911,682	4,476,776	108,388,458
Gross profit	20,983,780	904,034	21,887,814
Total assets	296,534,523	3,202,812	299,737,335
Total liabilities	177,288,942	2,841,273	180,130,215
<u>For the period ended 31 December 2017</u>			
Revenue	22,538,842	19,692,072	42,230,914
Gross profit	7,809,554	5,993,843	13,803,397
Total assets	256,005,940	13,243,252	269,249,192
Total liabilities	154,010,489	4,942,443	158,952,932

22 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 financial position 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.

23 APPROVAL OF THE FINANCIAL STATEMENTS

The Board of Directors has approved these financial statements on 25 Jumada Alawal 1441H (corresponding to 20 January 2020).