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

FINANCIAL STATEMENTS

31 DECEMBER 2019

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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 2019, 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 2019, 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.

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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: 20 Ramadan 1441 H
(13 May 2020)

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Notes	*2019* *SR*	*2018* *SR*
ASSETS			
CURRENT ASSETS			
Bank balances and cash		**7,989,467**	1,389,832
Accounts receivable and prepayments	5	**76,590,420**	78,109,902
Unbilled revenue	6	**40,638,673**	33,365,412
Inventories	7	**2,901,892**	4,178,796
TOTAL CURRENT ASSETS		**128,120,452**	117,043,942
NON-CURRENT ASSETS			
Amounts due from related parties	8	**36,519,799**	37,226,970
Property and equipment	9	**158,660,765**	160,129,573
TOTAL NON-CURRENT ASSETS		**195,180,564**	197,356,543
TOTAL ASSETS		**323,301,016**	314,400,485
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Bank overdrafts	11	**11,330,952**	14,865,681
Accounts payable and accruals	10	**127,914,133**	136,151,026
Short term loans	11	**22,481,016**	19,938,885
Obligation under capital lease - current portion	12	**3,821,097**	5,147,415
Zakat payable	13	**1,716,708**	326,790
TOTAL CURRENT LIABILITIES		**167,263,906**	176,429,797
NON-CURRENT LIABILITIES			
Obligation under capital lease	12	**221,460**	2,960,789
Amounts due to related parties	8	**4,552,350**	4,561,160
Employees' terminal benefits	14	**11,899,100**	10,841,619
TOTAL NON-CURRENT LIABILITIES		**16,672,910**	18,363,568
TOTAL LIABILITIES		**183,936,816**	194,793,365
SHAREHOLDERS' EQUITY			
Share capital	15	**20,000,000**	20,000,000
Statutory reserve		**15,000,000**	15,000,000
Shareholders' contribution	8	**76,377,562**	74,888,354
Retained earnings		**27,986,638**	9,718,766
TOTAL SHAREHOLDERS' EQUITY		**139,364,200**	119,607,120
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**323,301,016**	314,400,485

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

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	Notes	***2019*** ***SR***	*2018* *SR*
Revenue		**135,819,108**	108,388,458
Cost of revenue		**(102,605,670)**	(90,582,541)
GROSS PROFIT		**33,213,438**	17,805,917
General and administrative expenses	16	**(12,016,612)**	(9,694,580)
INCOME FROM MAIN OPERATIONS		**21,196,826**	8,111,337
Other income, net	17	**1,406,306**	1,994,861
Financial charges	11&12	**(2,624,087)**	(2,424,791)
INCOME BEFORE ZAKAT		**19,979,045**	7,681,407
Zakat	13	**(1,435,052)**	(234,590)
INCOME FOR THE YEAR		**18,543,993**	7,446,817
OTHER COMPREHENSIVE INCOME:			
Other comprehensive income not to be reclassified to net income in subsequent periods:			
Actuarial losses on employee defined benefits liabilities	14	**(276,121)**	(904,733)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**18,267,872**	6,542,084
EARNINGS PER SHARE:			
Attributed to income from main operations	19	**10.60**	4.06
Attributed to net income for the year	19	**9.27**	3.72

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

STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

	2019 *SR*	*2018* *SR*
OPERATING ACTIVITIES		
Income before zakat	**19,979,045**	7,681,407
Adjustments for:		
Depreciation	**2,071,922**	2,457,861
Provision for employees' terminal benefits	**1,465,825**	1,207,322
Loss (gain) on disposal of property and equipment	**33,626**	(354,403)
	23,550,418	10,992,187
Changes in operating assets and liabilities:		
Accounts receivable and prepayments	**1,519,483**	(30,275,921)
Unbilled revenue	**(7,273,261)**	(3,384,237)
Inventories	**1,276,904**	(2,015,088)
Accounts payable and accruals	**(8,236,893)**	15,469,726
Cash from (used in) operations	**10,836,651**	(9,213,333)
Employees' terminal benefits paid	**(684,465)**	(1,116,353)
Zakat paid	**(45,134)**	(59,829)
Net cash from (used in) operating activities	**10,107,052**	(10,389,515)
INVESTING ACTIVITIES		
Purchase of property and equipment	**(1,159,136)**	(10,373,436)
Proceeds from disposal of property and equipment	**522,396**	708,806
Net cash used in investing activities	**(636,740)**	(9,664,630)
FINANCING ACTIVITIES		
Shareholders' contribution	**1,489,208**	2,768,776
Related parties' balances, net	**698,361**	(1,778,234)
Bank overdrafts, net	**(3,534,729)**	77,952
Short term loans, net	**2,542,130**	12,440,457
Obligation under capital lease	**(4,065,647)**	7,328,038
Net cash (used in) from financing activities	**(2,870,677)**	20,836,989
INCREASE IN BANK BALANCES AND CASH	**6,599,635**	782,844
Bank balances and cash at the beginning of the year	**1,389,832**	606,988
BANK BALANCES AND CASH AT THE END OF THE YEAR	**7,989,467**	1,389,832

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2019

	Share capital SR	*Statutory reserve SR*	*Shareholders' contribution SR*	*Retained earnings SR*	*Total SR*
Balance at 1 January 2018	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
Income for the year	-	-	-	7,446,817	7,446,817
Other comprehensive loss	-	-	-	(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
Net movement during the year	-	-	1,489,208	-	1,489,208
Income for the year	-	-	-	18,543,993	18,543,993
Other comprehensive loss	-	-	-	(276,121)	(276,121)
Total comprehensive income	-	-	-	18,267,872	18,267,872
Balance at 31 December 2019	**20,000,000**	**15,000,000**	**76,377,562**	**27,986,638**	**139,364,200**

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.

The Company operates through the following branches:

Branch	*Commercial Registration No.*	*Date*
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	
	2019	*2018*
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 (2018: 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").

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.

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.

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.

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.

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.

5 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2019 ***SR***	*2018* *SR*
Accounts receivable	**52,572,049**	57,878,785
Advances to suppliers and subcontractors	**14,755,705**	11,464,349
Margin on letters of guarantee and credits	**7,666,300**	7,666,300
Prepaid expenses	**993,772**	558,296
Employees' receivables	**602,594**	542,172
	76,590,420	78,109,902

Included in accounts receivable are amounts totaling SR 29,334,530 (2018: SR 30,755,663) due from government entities. No accounts receivable balances considered impaired at 31 December 2019 and 2018.

6 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.

7 INVENTORIES

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

8 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:

a) <u>Amounts due from related parties:</u>

Related party	*Nature of relationship*	***2019*** ***SR***	*2018* *SR*
Al-Marafik Construction Company	Affiliate	**30,571,745**	31,183,845
Novatel Company for Communications and Information Technology	Affiliate	**4,412,130**	4,507,201
Al-Tawleed for Power and Energy Company	Unconsolidated subsidiary	**1,535,924**	1,535,924
At the end of the year		**36,519,799**	37,226,970

b) <u>Amounts due to related parties:</u>

Related party	*Nature of relationship*	***2019*** ***SR***	*2018* *SR*
Dr. Abdullah Al Zamil	Key management personnel	**3,472,500**	3,472,500
Elaf International Trading Company	Affiliate	**1,079,850**	1,088,660
At the end of the year		**4,552,350**	4,561,160

8 RELATED PARTIES TRANSACTIONS AND BALANCES (continued)

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:

Related party	*Nature of transaction*	*Amount of transaction*	
		2019	*2018*
		SR	*SR*
Al-Marafik Contracting Company	Financing made	**601,328**	1,767,725
	Repayment of financing provided to the Company	**(1,213,428)**	(967,201)
Elaf International Trading Company	Financing made	**57,740**	1,023,985
	Repayment of financing provided to the Company	**(48,931)**	(377,782)
Novatel Company for Communications and Information Technology	Financing made	**4,930**	886,853
	Repayment of financing provided to the Company	**(100,000)**	(555,346)

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

9 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*	***2019*** ***SR***	*2018* *SR*
Cost:										
At the beginning of the year	144,772,353	17,229,246	91,007,614	4,758,296	30,785,707	4,885,997	816,372	490,000	**294,745,585**	289,430,895
Additions	-	106,837	682,537	121,706	36,000	212,056	-	-	**1,159,136**	10,373,436
Disposals / write off	-	-	(2,978,998)	-	(3,668,998)	-	-	(490,000)	**(7,137,996)**	(5,058,745)
At the end of the year	144,772,353	17,336,083	88,711,153	4,880,002	27,152,709	5,098,053	816,372	-	**288,766,725**	294,745,586
Accumulated depreciation:										
At the beginning of the year	-	16,913,320	78,422,048	4,709,019	29,670,138	4,561,332	340,155	-	**134,616,012**	136,862,494
Charge for the year	-	117,702	1,420,016	33,243	178,311	159,375	163,275	-	**2,071,922**	2,457,861
Disposals	-	-	(2,959,978)	-	(3,621,996)	-	-	-	**(6,581,974)**	(4,704,342)
At the end of the year	-	17,031,022	76,882,086	4,742,262	26,226,453	4,720,707	503,430	-	**130,105,960**	134,616,013
Net book amounts:										
At 31 December 2019	**144,772,353**	**305,061**	**11,829,067**	**137,740**	**926,256**	**377,346**	**312,942**	-	**158,660,765**	
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

9 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 (2018: SR 105 million) are mortgaged to local banks as a security against bank facilities (note 11).

(**) Machinery and equipment include items with a net book value of SR 8,474,277 (2018: SR 9,011,754) which were purchased under a capital lease agreement (note 12).

Depreciation charge for the year was allocated as follows:

	2019	*2018*
	SR	*SR*
Cost of revenue	**1,655,594**	2,027,484
General and administrative expenses (note 16)	**416,328**	430,377
	2,071,922	2,457,861

10 ACCOUNTS PAYABLE AND ACCRUALS

	2019	*2018*
	SR	*SR*
Advances from customers	**54,979,824**	59,551,515
Trade and subcontractor payables	**23,050,596**	36,280,471
Accrued employee benefits	**27,037,536**	23,550,567
Retention payables	**13,308,134**	12,077,407
Accrued expenses	**9,538,043**	4,691,066
	127,914,133	136,151,026

11 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 9), 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.

12 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:

	2019	*2018*
	SR	*SR*
Minimum lease payments	**4,206,250**	8,689,536
Less: estimated amounts representing finance charges	**(163,693)**	(581,332)
	4,042,557	8,108,204
Current maturity shown under current liabilities	**(3,821,097)**	(5,147,415)
	221,460	2,960,789

12 OBLIGATION UNDER CAPITAL LEASE (continued)

Maturity profile
Minimum lease payment falling due during years ending:

	2019 *SR*	*2018* *SR*
2019	**1,135,206**	5,618,858
2020	**2,849,584**	2,849,218
2021	**221,460**	221,460
	4,206,250	8,689,536

13 ZAKAT

Charge for the year
Zakat charge for the year amounting to SR 1,435,052 (2018: SR 234,590) consists of current year provision.

The current year provision is based on the following:

	2019 *SR*	*2018* *SR*
Equity	**119,607,120**	110,296,260
Opening provisions and other adjustments	**73,941,751**	17,010,143
Book value of long-term assets	**(159,150,765)**	(160,129,573)
	34,398,106	(32,823,170)
Adjusted income for the year	**21,934,878**	9,383,600
Zakat base	**56,332,984**	9,383,600

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.

Movement in zakat provision
The movement in the zakat provision was as follows:

	2019 *SR*	*2018* *SR*
At the beginning of the year	**326,790**	152,029
Provided during the year	**1,435,052**	234,590
Payments during the year	**(45,134)**	(59,829)
At the end of the year	**1,716,708**	326,790

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 2018 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 2018 have not yet been raised by the GAZT.

14 EMPLOYEES' DEFINED BENEFITS LIABIILITIES

The management has carried out an exercise to assess the present value of its defined benefit obligations at 31 December 2019 and 2018 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:

	2019	2018
	SR	*SR*
Present value of employees' defined benefits liabilities	**11,899,100**	10,841,619

	2019	*2018*
	SR	*SR*
Statement of comprehensive income charge		
Current service costs	**1,036,198**	870,573
Interest costs on liability	**429,627**	336,749

	2019	*2018*
	SR	*SR*
Reconciliation of present value of employees' defined benefits liabilities:		
At the beginning of the year	**10,841,619**	9,845,917
Current service costs	**1,036,198**	870,573
Interest costs on liability	**429,627**	336,749
Benefits paid during the year	**(684,465)**	(1,116,353)
Re-measurement loss on defined benefit plans	**276,121**	904,733
At the end of the year	**11,899,100**	10,841,619

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

	2019	*2018*
Discount rate	**3.3%**	4.4%
Future salary increment rate	**2.5%**	2.5%
Retirement age	**60 years**	60 years

15 SHARE CAPITAL

Share capital is divided into 2,000,000 shares (2018: 2,000,000 shares) of SR 10 each.

16 GENERAL AND ADMINISTRATIVE EXPENSES

	2019	*2018*
	SR	*SR*
Employees' salaries and related benefits	**7,899,634**	6,686,677
Professional fees	**2,372,523**	1,321,789
Utilities	**440,020**	529,251
Office equipment maintenance	**492,153**	450,216
Depreciation (note 9)	**416,328**	430,377
Subscription and fees	**89,686**	92,841
Vehicle expenses	**79,378**	42,890
Printing and stationery	**65,930**	34,542
Others	**160,960**	105,997
	12,016,612	9,694,580

17 OTHER INCOME, NET

	2019	*2018*
	SR	*SR*
Rental income	**1,097,148**	1,254,104
Loss on disposal of property and equipment	**(33,626)**	354,403
Miscellaneous	**342,784**	386,354
	1,406,306	1,994,861

18 CONTINGENT LIABILITIES

Guarantees

The Company's bankers have issued on its behalf, letters of guarantee, credit and bid bounds amounting to SR 110,675,605 (2018: SR 102,598,156) 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.

19 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.

20 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.

20 RISK MANAGEMENT (continued)

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.

21 EVENTS AFTER THE REPORTING PERIOD

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread globally including the Kingdom of Saudi Arabia (KSA), causing disruptions to many businesses and economic activities.

The extent and duration of such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the transmission rate of the coronavirus and the extent and effectiveness of containment actions taken. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorization of these financial statements. These developments could impact our future financial results, cash flows and financial condition.

In the opinion of management, other than above, no other events have occurred subsequent to the reporting date and before the issuance of these financial statements which requires adjustment to, or disclosure, in these financial statements.

22 COMPARATIVE FIGURE

Certain of prior year figures have been restated to conform with current year presentations as follows:

	Amount before reclassification	*Reclassification*	*Amount after reclassification*
	SR	*SR*	*SR*
Cost of revenue	(86,500,644)	(4,081,897)	(90,582,541)
General and administrative expenses	(13,776,477)	4,081,897	(9,694,580)

23 APPROVAL OF THE FINANCIAL STATEMENTS

The Board of Directors has approved these financial statements on 20 Ramadn1441H (corresponding to 13 May 2020).