

**ABDULLAH ABDUL MOHSIN AL-KHODARI
SONS COMPANY**
(A Saudi Joint Stock Company)

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER, 2016**

ABDULLAH ABDUL MOHSIN AL-KHODARI SONS COMPANY
(A Saudi Joint Stock Company)

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER, 2016**

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Abdullah Abdul Mohsin Al-Khodari Sons Company
(A Saudi Joint Stock Company)

Scope of audit

We have audited the accompanying balance sheet of Abdullah Abdul Mohsin Al-Khodari Sons Company (A Saudi Joint Stock Company) ("the Company") as at 31 December 2016 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and the attached notes 1 to 34 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Unqualified opinion

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

- 1) present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- 2) comply, in all material respects, with the requirements of the Regulations for Companies and the Company's Articles of Association so far as these relate to the preparation and presentation of the financial statements.

For Dr. Mohamed Al-Amri & Co.



Gihad M. Al-Amri
Certified Public Accountant
Registration No. 362



March 15, 2017-G
Jumada 'II, 16, 1438-H

ABDULLAH ABDUL MOHSIN AL-KHODARI SONS COMPANY
(A Saudi Joint Stock Company)

BALANCE SHEET
AS AT 31 DECEMBER, 2016

	Notes	2016 <u>SR</u>	2015 <u>SR</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	73,128,872	111,465,043
Accounts receivable	4	631,783,807	657,525,485
Advances to suppliers, prepayments and other current assets	5	208,898,866	309,926,536
Value of work executed in excess of billings	6	1,450,735,585	1,571,892,703
Amounts due from related parties	7(a)	3,746,711	15,154,374
Inventories	8	61,906,038	71,273,376
Assets held for sale	9	2,460,075	14,346,136
TOTAL CURRENT ASSETS		2,432,659,954	2,751,583,653
NON-CURRENT ASSETS			
Investments in subsidiaries	10	4,292,191	4,292,191
Mobilization costs	11	31,272,692	18,772,863
Long term deposits	12	4,414,652	31,124,259
Property, equipment and vehicles	13	312,772,569	443,382,984
TOTAL NON-CURRENT ASSETS		352,752,104	497,572,297
TOTAL ASSETS		2,785,412,058	3,249,155,950
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	14	505,749,438	530,351,612
Accrued expenses and other current liabilities		214,461,242	297,047,492
Advances from customers		54,003,145	62,121,860
Amounts due to related parties	7(b)	36,076,544	23,204,270
Provision for zakat	15	10,782,705	8,383,386
Short term loans	16	136,290,112	24,575,955
Current portion of term loans	17	428,870,106	441,117,348
Dividend payable	18	1,663,647	1,663,647
TOTAL CURRENT LIABILITIES		1,387,896,939	1,388,465,570
NON-CURRENT LIABILITIES			
Term loans	17	316,232,276	638,816,460
Advances from customers		114,971,200	126,885,224
Employees' end of service benefits	19	57,045,467	66,542,235
Loan from a parent company	20	135,000,000	135,000,000
Loan from an affiliate		4,050,000	4,050,000
TOTAL NON-CURRENT LIABILITIES		627,298,943	971,293,919
TOTAL LIABILITIES		2,015,195,882	2,359,759,489
SHAREHOLDERS' EQUITY			
Share capital	21	557,812,500	531,250,000
Statutory reserve		70,988,856	70,988,856
Retained earnings		141,414,820	287,157,605
TOTAL SHAREHOLDERS' EQUITY		770,216,176	889,396,461
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,785,412,058	3,249,155,950

The accompanying notes 1 to 34 form an integral part of these financial statements.


Sohail Saeed
Finance Manager


Ali Al-Khodari
Chairman


Fawwaz Al-Khodari
Chief Executive Officer


ABDULLAH ABDUL MOHSIN AL-KHODARI SONS COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER, 2016

	Notes	2016 <u>SR</u>	2015 <u>SR</u>
Revenue	29	1,030,330,233	1,569,938,925
Direct cost		(1,082,641,591)	(1,451,963,656)
Gross (loss) / profit	29	(52,311,358)	117,975,269
EXPENSES			
Selling and marketing expenses	23	(6,549,185)	(15,102,826)
General and administration expenses	24	(45,920,729)	(68,159,276)
(Loss) / income from main operations		(104,781,272)	34,713,167
Other income, net	25	43,614,019	47,727,095
Financial charges		(50,757,716)	(45,649,750)
(Loss) / income before zakat		(111,924,969)	36,790,512
Zakat	15	(6,055,316)	(3,431,231)
(Loss) / income for the year		(117,980,285)	33,359,281
			Restated
(Loss) / earnings per share from main operations	28	(1.92)	0.62
(Loss) / earnings per share from net (loss) / income	28	(2.12)	0.60
Loss per share from other activities	28	(0.20)	(0.02)
Weighted average number of shares outstanding	21	55,781,250	55,781,250

The accompanying notes 1 to 34 form an integral part of these financial statements.


Suhail Saeed
Finance Manager

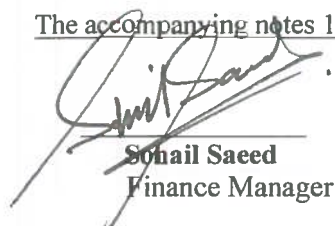

Ali Al-Khodari
Chairman

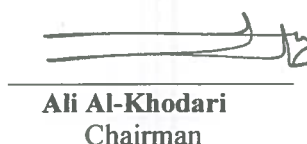

Fawwaz Al-Khodari
Chief Executive Officer

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER, 2016

	Notes	2016 <u>SR</u>	2015 <u>SR</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / income before zakat		(111,924,969)	36,790,512
<i>Adjustments for:</i>			
Depreciation	13	124,338,495	144,820,671
Amortisation of mobilization cost	11	12,460,010	14,920,441
Provision for employees' end of service benefits	19	5,852,663	24,538,164
Gain on disposal of assets held for sale	25	(14,295,240)	(41,064,354)
Financial charges		50,757,716	45,649,750
		<u>67,188,675</u>	<u>225,655,184</u>
Changes in operating assets and liabilities			
Accounts receivables		37,149,341	(57,083,125)
Advances, prepayments and other current assets		101,027,670	(97,624,578)
Inventories		9,367,338	26,812,826
Value of work executed in excess of billings		121,157,118	(212,218,423)
Accounts payables		(11,729,900)	156,865,672
Accrued expenses and other current liabilities		(86,207,700)	168,849,289
Advances from customers		(20,032,739)	(73,478,855)
Long term deposits		26,709,607	(4,414,652)
Net cash from operations		<u>244,629,410</u>	<u>133,363,338</u>
Financial charges paid		(47,136,266)	(42,437,707)
Zakat paid	15	(3,655,997)	(2,366,659)
Employees' end of service benefits paid	19	(15,349,431)	(27,629,848)
Net cash from operating activities		<u>178,487,716</u>	<u>60,929,124</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, equipment and vehicles	13	(29,157,213)	(103,143,078)
Proceeds from disposal of assets held for sale		61,610,434	144,080,967
Mobilization cost incurred	11	(24,959,839)	(3,030,124)
Net cash from investing activities		<u>7,493,382</u>	<u>37,907,765</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Movement in short term and long term loans		(223,117,269)	(259,312,021)
Loan received from a parent company	20	-	135,000,000
Dividend paid	18	-	(26,562,500)
Directors' remuneration paid	22	(1,200,000)	(1,200,000)
Net cash used in financing activities		<u>(224,317,269)</u>	<u>(152,074,521)</u>
DECREASE IN CASH AND CASH EQUIVALENTS		<u>(38,336,171)</u>	<u>(53,237,632)</u>
Cash and cash equivalent at beginning of the year		111,465,043	164,702,675
CASH AND CASH EQUIVALENT AT END OF THE YEAR		<u>73,128,872</u>	<u>111,465,043</u>
Non cash transactions			
Property, equipment and vehicles transferred to assets held for sale – net book value		35,429,131	98,287,865
Issue of bonus shares		26,562,500	-

The accompanying notes 1 to 34 form an integral part of these financial statements.


Suhail Saeed
Finance Manager


Ali Al-Khodari
Chairman


Fawwaz Al-Khodari
Chief Executive Officer


ABDULLAH ABDUL MOHSIN AL-KHODARI SONS COMPANY
(A Saudi Joint Stock Company)

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER, 2016**

	Share capital SR	Statutory reserve SR	Retained earnings SR	TOTAL SR
Balance at 31 December, 2014	531,250,000	67,652,928	284,896,752	883,799,680
Net income for the year	-	-	33,359,281	33,359,281
Transferred to statutory reserve	-	3,335,928	(3,335,928)	-
Dividend (note 18)	-	-	(26,562,500)	(26,562,500)
Directors' remuneration (note 22)	-	-	(1,200,000)	(1,200,000)
Balance at 31 December, 2015	531,250,000	70,988,856	287,157,605	889,396,461
Net loss for the year	-	-	(117,980,285)	(117,980,285)
Issue of bonus shares (note 21)	26,562,500	-	(26,562,500)	-
Directors' remuneration (note 22)	-	-	(1,200,000)	(1,200,000)
Balance at 31 December, 2016	557,812,500	70,988,856	141,414,820	770,216,176

The accompanying notes 1 to 34 form an integral part of these financial statements.


Suhail Saeed
Finance Manager


Ali Al-Khodari
Chairman


Fawwaz Al-Khodari
Chief Executive Officer

ABDULLAH ABDUL MOHSIN AL-KHODARI SONS COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2016

1. ORGANIZATION AND ACTIVITIES

Late Sheikh Abdullah Abdul Mohsin Al-Khodari founded a sole proprietorship in the Kingdom of Saudi Arabia in 1966 as general contracting. It was converted to a Saudi limited partnership under the name of Abdullah Abdul Mohsin Al-Khodari Sons Company on 25 Rajab 1412H corresponding to 30 January 1992. It was again converted into a Saudi Closed Joint Stock Company in accordance with Ministerial Resolution Number 152/Q dated 16 Jumad Awal 1430H (corresponding to 11 May 2009).

On 27 June 2010, Capital Market Authority accepted the application of the management of the Company for initial public offering of 12.75 million shares at Saudi Riyal 48 per share with the subscription date from 4 to 10 October 2010. From 23 October 2010, the shares of the Company have been listed at Saudi Stock Exchange.

In 2016, the Company incurred a gross loss amounted to SR 52.3 million (2015: gross profit of SR 117.9 million) which was mainly on surrender of one project and change in variation order receipt on certain projects. The management believes that these were one-off instances and as such they do not foresee any material loss on their current projects.

The Company is registered in Saudi Arabia under Commercial Registration number 2050022550. The following are the details of the branches of the Company:

S. No.	Commercial Registration Number of Branch	Branch Location	Commercial Registration Expiry Date
1	2055010732	Al-Jubail, Kingdom of Saudi Arabia	19/07/1440H
2	2051022661	Al-Khobar, Kingdom of Saudi Arabia	19/02/1439H
3	2050046483	Al-Dammam, Kingdom of Saudi Arabia	09/06/1440H
4	4700004976	Yanbu, Kingdom of Saudi Arabia	09/06/1440H
5	2051020011	Al-Khobar, Kingdom of Saudi Arabia	09/06/1440H
6	4030091835	Jeddah, Kingdom of Saudi Arabia	09/06/1440H
7	4650023682	Al-Madina Al-Munawwara, Kingdom of Saudi Arabia	09/06/1440H
8	2050055132	Al-Dammam, Kingdom of Saudi Arabia	17/05/1439H
9	2051022869	Al-Khobar, Kingdom of Saudi Arabia	13/06/1439H
10	CN-1207723	Abu Dhabi, United Arab Emirates	26/07/2017G
11	EXT-707	Republic of Ghana	21/05/2017G
12	343067	State of Kuwait	26/09/2018G
13	1010366806	Al-Riyadh, Kingdom of Saudi Arabia	27/04/1439H
14	86824-1	Kingdom of Bahrain	12/09/2017G

The Company is engaged in the following activities:

- General contracting works related to construction, renovation and demolition, roads, water and sewage system works, mechanical works, marine works, dams and well drilling.
- Maintenance and operation of roads and tunnels, irrigation sewage and dams, airports, power plants—sewage systems, training and educational centers, playgrounds, provisional and permanent exhibitions.
- Janitorial services, municipality works, commercial and residential building cleaning – landscaping, park cleaning and maintenance, disposal of wastes—cleaning of petroleum tanks and pipes.
- Air conditioning and refrigeration works.
- Travel and tourism.
- Cargo haulage.
- Publicity and advertisement.
- Management and operation of hospitals and health centers.
- Training centers.
- Management of hazardous industrial wastes.

NOTES TO THE FINANCIAL STATEMENTS – continued
FOR THE YEAR ENDED 31 DECEMBER, 2016

- Manufacturing of waste squeezing equipment for vehicles, water and diesel tanks, waste containers, different trailers, cement tanks, concrete moulds, arms for cranes, chassis, water boilers, pressure systems, heat exchangers, cement mixers, chinaware, electric bulbs and paraffin wax.
 - Wholesale and retail trade of building materials, electric items, iron and steel, copper, lead, aluminum, hardware, medical and surgical equipment, hospital requirements, communication systems, cameras and accessories, electronic calculators, safety equipment, watches, glasses, industrial tools and equipment, road construction equipment, sewage treatment equipment, industrial cleaning equipment, industrial equipment control systems, cement factory equipment, gypsum factory equipment, textile machines, heat exchangers, truck mounted cement mixers, axle fans, tunnel ventilation equipment, sound proof systems, agricultural machines, vehicles and spare parts, decoration items, chemical materials for industrial works, industrial equipment, chemical materials for sewage treatment, oils collection, treatment and burning of gases resulting from waste burial, indirect fans, emergency ventilation, engineering, fans, industrial jet, complete air tunnels, examination platforms, boilers and pressure regulators, petrochemical parts and equipment, acoustic cleaners, industrial blowers, gypsum machines, electrical and thermal probes, equipment for industry/roads/construction, generators and turbines, stoves, stacks and rust removal machines.
 - Construction, operation and maintenance of power plants, electrical utilities, desalination plants, sewerage treatment plants, petrochemical factories, gas and oil refineries, cement factories, industrial facilities.
 - Industrial work contracts related to construction of factories, extension of oil and gas pipelines and petrochemical works.
 - Commercial services related to brokerage other than exchange and real estate works.
 - Commercial agencies, after registration of each agency with the ministry of commerce.
 - Operation and maintenance of electrical and electronic systems and computers.
 - Import and export services, marketing for others, cooked and uncooked food services, inspection interview services, packaging and shipment.
 - Maintenance and repair of cars.
 - Wholesale and retail trading/renting of light and heavy equipment.
 - Water works, sewerage, maintenance, landscaping and cleaning contracts.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared on the accrual basis of accounting, in accordance with generally accepted accounting standards applicable in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA). The significant accounting policies adopted in the preparation of these financial statements are as follows:

Accounting convention

The financial statements are prepared under the historical cost convention.

Use of estimates

The preparation of financial statements in accordance with generally accepted accounting standards requires the use of estimates and judgments which might affect the valuation of recorded assets, liabilities and the disclosure of contingencies in the notes to the financial statements at the balance sheet date and the reported amounts of revenues and expenses during the year. Although these estimates are based on the best information available to the management at the time of issuing the financial statements, the actual results might differ from those estimates.

Accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of revision and future years, if the revision affects both current and future years. The significant areas of estimation uncertainty and critical adjustments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

- estimated useful lives of and residual value of property, equipment and vehicles
- estimated costs of long term contracts
- provision for doubtful debts

NOTES TO THE FINANCIAL STATEMENTS – continued
FOR THE YEAR ENDED 31 DECEMBER, 2016

- provisions and accruals
- provision for slow moving inventories

Cash and cash equivalents

Cash and cash equivalents consist of bank balances and cash in hand and short term deposits that are readily convertible into known amounts of cash and have original maturities of three months or less.

Accounts receivable

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average basis.

Assets held for sale

Property, equipment and vehicles are classified as assets held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Assets held for sale are measured at the lower of carrying amount and fair value less costs to sell. Property, equipment and vehicles once classified as held for sale are not depreciated.

Investments

Investments in subsidiaries are accounted for at cost less impairment, if any.

Mobilization costs

Direct costs incurred to commence new contracts are deferred and amortized over the period of related contracts on a straight line method.

Property, equipment and vehicles

Property, equipment and vehicles are initially recorded at cost and are stated at cost less accumulated depreciation and any impairment in value. Capital work in progress is not depreciated. The cost of property, equipment and vehicles is depreciated on a straight line basis over the estimated useful lives of the assets. Following are the estimated useful lives of the assets for the calculation of depreciation:

Buildings, portables and hangers	4-20 years
Machinery, equipment and tools	4-10 years
Construction vehicles	4-6.67 years
Office equipment and furniture	4-6.67 years

Expenditures for repair and maintenance are charged to income. Improvements that materially extend the life of the related assets are capitalized.

Impairment of non-current assets

At each balance sheet date, the carrying amounts of non-current assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NOTES TO THE FINANCIAL STATEMENTS – continued
FOR THE YEAR ENDED 31 DECEMBER, 2016

Impairment of non-current assets (continued)

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment loss is recognized as an expense in the statement of income immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of income.

Borrowings

Borrowings are recognized at the proceeds received net of transaction cost. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the statement of 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.

Provision for obligation

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Employees' end of service benefits

Provision is made for amounts payable according to Company's policy applicable to employees' accumulated periods of service at the balance sheet date.

Statutory reserve

As required by the Articles of Association of the Company, 10% of the net income for the period has been transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the capital. The reserve is not available for distribution. The Company has a practice of transferring the required amount of net income in statutory reserves on quarterly basis and makes necessary adjustments at the year end.

Zakat

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. The provision is charged to the statement of income. Additional amounts, if any, that become due on finalization of assessment are accounted for in the period in which assessment is finalized.

Foreign currencies

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

Segmental reporting

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.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER, 2016

(Loss) earnings per share

Basic (loss) / earnings per share from net (loss) / income is calculated by dividing the net (loss) / income for the period by the weighted average number of shares outstanding during the year.

Revenue recognition

Trading revenue

Sales revenue represents the invoiced value of goods supplied and services rendered by the Company during the year. Services performed but not billed at the balance sheet date are classified as "accrued income".

Contracting revenue

The Company principally operates fixed price contracts. If the outcome of such a contract can be reliably measured, revenue associated with the construction contract is recognised by reference to the percentage of completion method of each contract activity at year end.

The outcome of a construction contract can be estimated reliably when:

- (i) the total contract revenue can be measured reliably;
- (ii) it is probable that the economic benefits associated with the contract will flow to the entity;
- (iii) the costs to complete the contract and the stage of completion at the balance sheet date can be measured reliably; and
- (iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates

When the outcome of a construction cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognized only to the extent of costs incurred that are expected to be recoverable.

In applying the percentage of completion method, revenue recognized corresponds to the total contract revenue multiplied by the actual completion rate based on the proportion of total contract costs incurred to date and the estimated cost to complete.

When the stage of completion is determined by reference to the contract costs incurred up to the reporting date, only those contract costs that reflect work performed are included in costs incurred up to the reporting date. The following costs are excluded from contract costs:

- i) Contract costs that relate to future activity on the contract, such as costs of materials that have been delivered to a contract site or set aside for use in a contract but not yet installed, used or applied during contract performance, unless the materials have been made especially for the contract.
- ii) Payments made to subcontractors in advance of work performed under the subcontract.

When an uncertainty arises about the collectability of an amount already included in contract revenue, and already recognized in the statement of income, the uncollectable amount or the amount in respect of which recovery has ceased to be probable is recognized as an expense rather than as an adjustment of the amount of contract revenue.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER, 2016

Revenue recognition (continued)

Revenue from change orders is recognized when:

- i) The change orders have been approved by the customer; and
- ii) The amount of change order can be measured reliably.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. The amount of such a loss is determined irrespective of:

- i) Whether or not work has commenced on the contract;
- ii) The stage of completion of contract activity; or
- iii) The amount of profits expected to arise on other contracts which are not considered as a single construction contract.

Change in the estimate of contract revenue or contract costs or the effect of a change in the estimate of the outcome of a contract, is accounted for as a change in accounting estimate and accordingly accounted for prospectively.

Contract costs

Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that relate directly to a specific contract comprise: site labour costs (including site supervision), costs of materials used in construction, depreciation of equipment used on the contract, costs of design, and technical assistance that is directly related to the contract.

Leasing

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to statement of income on a straight-line basis over the term of the operating lease.

Expenses

Selling and marketing expenses are those that relate to project bidding costs and advertising as well as allowance for doubtful debts. All other expenses except for operating costs and financial charges are classified as general and administration expenses.

Dividends

Dividends are recorded in the financial statements in the period in which these are approved by the shareholders of the Company.

NOTES TO THE FINANCIAL STATEMENTS – continued
FOR THE YEAR ENDED 31 DECEMBER, 2016

3. CASH AND CASH EQUIVALENTS

	2016	2015
	<u>SR</u>	<u>SR</u>
Cash in hand	26,886,088	7,743,229
Cash at banks	46,242,784	103,721,814
	<u>73,128,872</u>	<u>111,465,043</u>

4. ACCOUNTS RECEIVABLE

	2016	2015
	<u>SR</u>	<u>SR</u>
Accounts receivable	551,180,879	602,180,808
Less: Provision for doubtful debts	(2,762,139)	(2,256,173)
	<u>548,418,740</u>	<u>599,924,635</u>
Retentions receivable	85,401,467	58,960,499
Less: Provision for doubtful retentions	(2,036,400)	(1,359,649)
	<u>83,365,067</u>	<u>57,600,850</u>
Total accounts receivable - net	<u>631,783,807</u>	<u>657,525,485</u>

At 31 December 2016, the receivable from government authorities represents 78% (2015: 73%) of total accounts and retentions receivable.

As at 31 December 2016, accounts receivable at nominal value of SR 4.8 million (2015: SR 3.6 million) were impaired. Movement in the provision for doubtful debts and retentions was as follows:

	2016	2015
	<u>SR</u>	<u>SR</u>
At the beginning of the year	3,615,822	3,517,098
Charge for the year	3,886,868	98,724
Amounts written off	(2,704,151)	-
At the end of the year	<u>4,798,539</u>	<u>3,615,822</u>

As at 31 December 2016, the ageing of unimpaired accounts receivable is as follows:

	Total SR	1-90 days SR	91-180 days SR	181-365 days	Above 1 year
At 31 December, 2016	548,418,740	191,301,606	51,466,996	105,340,397	200,309,741
At 31 December, 2015	599,924,635	315,095,629	63,977,209	80,376,119	140,475,678

NOTES TO THE FINANCIAL STATEMENTS - continued
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5. ADVANCES TO SUPPLIERS, PREPAYMENTS AND OTHER CURRENT ASSETS

	2016	2015
	SR	SR
Advances to suppliers and subcontractors	111,624,613	200,630,644
Prepaid expenses	18,512,812	32,169,927
Loan to employees	17,565,472	38,112,388
Margin against letters of guarantee	17,859,768	19,230,065
Deposits and other current assets	5.1 43,336,201	19,783,512
	208,898,866	309,926,536

5.1. It includes current portion of long term deposits amounting to SAR 26.7 million (2015: nil).

6. VALUE OF WORK EXECUTED IN EXCESS OF BILLINGS

	2016	2015
	SR	SR
Contract value of projects	7,495,925,256	8,070,153,255
Less: Value of un-executed work to date (backlog)*	(2,218,136,625)	(2,969,148,866)
Value of work executed to date	5,277,788,631	5,101,004,389
Less: Progress billings and advances	(3,827,053,046)	(3,529,111,686)
	1,450,735,585	1,571,892,703

The movement in value of work executed in excess of billings is as follows:

	2016	2015
	SR	SR
At the beginning of the year	1,571,892,703	1,359,674,280
Add: Value of work executed during the year	1,026,072,437	1,558,714,279
Less: Progress billings made during the year	(1,147,229,555)	(1,346,495,856)
At the end of the year	1,450,735,585	1,571,892,703

*Backlog figures exclude cleaning, operations and maintenance contracts which do not follow percentage of completion method for revenue recognition.

7. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Company and entities controlled or significantly influenced by such parties. Following is the list of major related parties of the Company:

<i>Name of related party</i>	<i>Nature of relationship</i>
Al Khodari Investment Holding Company	Parent Company
Al Khodari and Sons Company	Affiliate
Al Khodari Heavy Industries	Affiliate
Al Khodari Industrial Trading and Services	Affiliate
Al Khodari Travel and Toursim Agency	Affiliate
Abdullah Abdul Mohsin Al Khodari Sons and Hertel Company	Affiliate
Al Khodari LV Shipping Company Limited	Affiliate

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Hammon D'Hondt Middle East Company Limited	Affiliate
Mace Saudi Arabia Company Limited	Affiliate
Fleet Tracking Technology	Affiliate
Karrena Arabia Company Limited	Affiliate
Abdullah Abdul Mohsin Al Khodari Sons Company, Qatar	Subsidiary
Al Khodari International Group for Contracting L.L.C, Kuwait	Subsidiary
Al Khodari International, Abu Dhabi	Subsidiary
Masahaat Al Aqariyah	Affiliate
Madh Real Estate Company	Affiliate
Bahrath Al Dhana Establishment	Affiliate
Fawwaz and Partners Company	Affiliate
Housing and Construction Real Estate Company	Affiliate

Transactions with related parties during the year are as follows:

	2016	2015
	<u>SR</u>	<u>SR</u>
Purchases, services and sub-contracting	2,896,700	4,891,170
Sale of assets	50,495,260	-
Air tickets	1,707,672	11,871,023
Expenses recharged to affiliates	154,738	821,017
Directors' salaries and other benefits (see below)	860,000	860,000

The Company paid salaries and other benefits to a director in his capacity as executive of the Company.

The Company has a non-commission bearing loan from an affiliate repayable by 31 December 2020.

Loan from an affiliate is classified under non-current liabilities in the balance sheet.

Pricing policies and terms of these transactions are approved by the Company's management.

The breakdown of amounts due from and to related parties is as follows:

a) Amounts due from related parties

	2016	2015
	<u>SR</u>	<u>SR</u>
Abdullah Abdul Mohsin Al Khodari Sons and Hertel Company	1,616,952	1,616,952
Mace Saudi Arabia Company Limited	1,392,962	1,900,504
Al-Khodari International Qatar	169,969	169,969
Al Khodari Industrial Trading and Services	132,573	-
Hamon D'Hondt Middle East Company Limited	197,392	197,392
Al-Khodari charity Office	130,456	-
Other affiliates	106,407	1,073,834
Al Khodari Investment Holding Company	-	10,195,723
	3,746,711	15,154,374

b) Amounts due to related parties

	2016	2015
	<u>SR</u>	<u>SR</u>
Al Khodari Investment Holding Company	7,078,770	-
AL Khodari Heavy Industries	5,400,694	4,923,034
Al-Khodari Travel and Tourism Agency	13,866,715	13,320,740
Fleet Tracking Technology	1,140,063	855,471
Masahat Al Aqariyah	6,280,751	-
Housing and Construction Real Estate Company	1,113,003	-
Al-Khodari and Sons Company	564,149	3,822,525
Other affiliates	632,399	108,000
Al Khodari Industrial Trading and Services	-	174,500
	36,076,544	23,204,270

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8. INVENTORIES

	2016 <u>SR</u>	2015 <u>SR</u>
Consumable materials	64,477,502	76,298,597
Spare parts and consumables	<u>50,416</u>	<u>116,592</u>
	64,527,918	76,415,189
(less) provision for obsolete and slow moving items	<u>(2,621,880)</u>	<u>(5,141,813)</u>
	<u>61,906,038</u>	<u>71,273,376</u>
	2016 <u>SR</u>	2015 <u>SR</u>
At the beginning of the year	5,141,813	4,133,020
Add: Provision made during the year	-	6,560,343
Less: Reversals / write offs during the year	<u>(2,519,933)</u>	<u>(5,551,550)</u>
At the end of the year	<u>2,621,880</u>	<u>5,141,813</u>

9. ASSETS HELD FOR SALE

	2016 <u>SR</u>	2015 <u>SR</u>
At the beginning of the year	14,346,136	19,074,884
Transfer from property, equipment and vehicles-net book value (note 13)	35,429,131	98,287,865
Disposals	<u>(47,315,192)</u>	<u>(103,016,613)</u>
At the end of the year	<u>2,460,075</u>	<u>14,346,136</u>

10. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries comprise the following:

	Percentage of holding		2016 <u>SR</u>	2015 <u>SR</u>
	2016	2015		
Abdullah Abdul Mohsin Al Khodari Sons Company, Qatar (note 10.1)	100	100	207,640	207,640
Al Khodari International Group for Contracting L.L.C., Kuwait (note 10.1)	99	99	4,009,500	4,009,500
Al Khodari International, Abu Dhabi (note 10.1)	49	49	<u>75,051</u>	<u>75,051</u>
			<u>4,292,191</u>	<u>4,292,191</u>

10.1 Pursuant to the agreements between the Company and other partners of the subsidiaries, the Company holds effectively 100% interest in these subsidiaries.

10.2 The investments in subsidiaries are not consolidated in these financial statements as the subsidiaries have no business during the year or are considered immaterial in relation to the financial statements taken as a whole.

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11. MOBILISATION COSTS

	2016	2015
	<u>SR</u>	<u>SR</u>
Costs		
At the beginning of the year	71,110,303	68,080,179
Additions during the year	24,959,839	3,030,124
At the end of the year	<u>96,070,142</u>	<u>71,110,303</u>
Amortization		
At the beginning of the year	(52,337,440)	(37,416,999)
Amortization during the year	(12,460,010)	(14,920,441)
At the end of the year	<u>(64,797,450)</u>	<u>(52,337,440)</u>
Net carrying value	<u>31,272,692</u>	<u>18,772,863</u>

The Company incurred mobilization costs on certain long term contracts. Such costs are amortized over the period of the related contracts on straight line method.

12. LONG TERM DEPOSITS

	2016	2015
	<u>SR</u>	<u>SR</u>
At the beginning of the year	31,124,259	26,709,607
Additions during the year	-	4,414,652
(Less) current portion (note 5)	(26,709,607)	-
At the end of the year	<u>4,414,652</u>	<u>31,124,259</u>

These deposits are against lease of equipment under an operating lease agreement. These deposits will be recovered at the end of the lease term.

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13. PROPERTY, EQUIPMENT AND VEHICLES

	Buildings, portables and hangers SR	Machinery, equipment and tools SR	Construction vehicles SR	Office equipment and furniture SR	Capital work in progress SR	Total 2016 SR	Total 2015 SR
Cost							
At the beginning of the year	91,665,597	552,269,261	515,882,686	72,409,334	81,608	1,232,308,486	1,396,769,816
Additions	-	513,334	2,633,199	-	26,010,679	29,157,212	103,143,078
Transfers	833,133	12,098,397	12,462,140	698,617	(26,092,287)	-	-
Transfer to assets held for sale (note 9)	(10,438,436)	(40,247,037)	(62,956,407)	(209,578)	-	(113,851,458)	(267,604,408)
At the end of the year	82,060,294	524,633,955	468,021,618	72,898,373	-	1,147,614,240	1,232,308,486
Depreciation							
At the beginning of the year	69,850,077	361,849,034	297,662,219	59,564,172	-	788,925,502	813,421,374
Charge for the year	8,700,360	50,210,726	59,276,802	6,150,608	-	124,338,496	144,820,671
Transfer to assets held for sale (note 9)	(6,621,847)	(35,704,061)	(36,009,246)	(87,173)	-	(78,422,327)	(169,316,543)
At the end of the year	71,928,590	376,355,699	320,929,775	65,627,607	-	834,841,671	788,925,502
Net book values:							
At 31 December 2016	10,131,704	148,278,256	147,091,843	7,270,766	-	312,772,569	-
At 31 December 2015	21,815,520	190,420,227	218,220,467	12,845,162	81,608	-	443,382,984

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14. ACCOUNTS PAYABLE

	2016	2015
	<u>SR</u>	<u>SR</u>
Payable to suppliers	443,795,870	448,804,832
Payable to sub-contractors	61,953,568	81,470,956
Bills payable	-	75,824
	<u>505,749,438</u>	<u>530,351,612</u>

15. ZAKAT

	2016	2015
	<u>SR</u>	<u>SR</u>
Charge for the year	<u>6,055,316</u>	<u>3,431,231</u>

Provision is based on the following:

	2016	2015
	<u>SR</u>	<u>SR</u>
Equity	862,833,961	858,900,827
Opening provisions and other adjustments	131,626,298	81,034,037
Book value of long term assets and investment (net of related financing)	<u>(657,115,407)</u>	<u>(625,540,893)</u>
	337,344,852	314,393,971
Zakatable (loss) / profit for the year	<u>(95,132,212)</u>	<u>20,941,464</u>
Zakat base	<u>242,212,640</u>	<u>335,335,435</u>

The differences between the financial and the zakatable results are mainly due to provisions which are not allowed in the calculation of zakatable (loss) / profit.

Movement in provision

The movement in the zakat provision is as follows:

	2016	2015
	<u>SR</u>	<u>SR</u>
At the beginning of the year	8,383,386	7,318,814
Charge for the year	6,055,316	3,431,231
Payments during the year	<u>(3,655,997)</u>	<u>(2,366,659)</u>
At the end of the year	<u>10,782,705</u>	<u>8,383,386</u>

NOTES TO THE FINANCIAL STATEMENTS – continued
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Status of assessments

Zakat assessments have been agreed with the General Authority of Zakat and Income Tax (GZAT) upto 2006. The assessments for the years 2007 to 2015 have not yet been raised.

Zakat base has been computed based on the regulations enforced in the Kingdom of Saudi Arabia. The zakat regulations in the Kingdom of Saudi Arabia are subject to different interpretations, the assessments to be raised by the GAZT could be different from the assessments filed by the Company.

Pursuant to the initial public offering during 2010, the parent company, on behalf of the Company, has agreed to pay to the GZAT any additional zakat liability, which may arise upon the finalization of zakat assessments for the years 2007 through 2009.

16. SHORT TERM LOANS

Short term loans bear commission at the commercial rates and are secured against assignment of proceeds from certain contracts, general assets of the Company and promissory notes.

17. TERM LOANS

In 2010, term loans were converted into Tawarruq and Murabaha loans. The loans comprise of project financing repayable upon collection, revolving loans and project financing repayable in fixed periodical installments. These loans are secured against general assets of the Company and promissory notes. The project financing loans are additionally covered against assignment of proceeds of the related projects. These loans carry commission at commercial rates. The Company is required to comply with certain covenants under certain loan agreements. The position of term loans is as follows:

	2016 SR	2015 SR
Project financing loans repayable upon collection (note (a) below)	480,801,503	600,655,750
Revolving loans (note (b) below)	121,905,290	191,074,614
Project financing loans repayable in periodical installments (note (c) below)	142,395,589	288,203,444
	745,102,382	1,079,933,808
Less: Current portion	(428,870,106)	(441,117,348)
Non-current portion of term loans	316,232,276	638,816,460

- a) These loans were obtained from various commercial banks and are repayable, based on a percentage ranging from 25% to 70% (2015: 35% to 55%), out of proceeds from the contracts. Accordingly, the current portion includes such loans based on Company's estimates of the proceeds expected from future billings.
- b) These loans were drawn up for short term which the management, in view of their working capital requirements, intends to renew for a further period extended beyond 31 December 2017.
- c) These loans are repayable in various fixed periodical installments with last installment due in 2018.

These loans carry mark up at commercial rates and are secured by way of assignments of Company's assets and promissory notes.

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18. DIVIDEND PAYABLE

	2016 SR	2015 SR
At the beginning of the year	1,663,647	1,663,647
Dividend approved during the year	-	26,562,500
Payments made during the year	-	(26,562,500)
At the end of the year	1,663,647	1,663,647

19. EMPLOYEES' END OF SERVICE BENEFITS

	2016 SR	2015 SR
At the beginning of the year	66,542,235	69,633,919
Charge for the year	5,852,663	24,538,164
Payments made during the year	(15,349,431)	(27,629,848)
At the end of the year	57,045,467	66,542,235

20. LOAN FROM A PARENT COMPANY

	2016 SR	2015 SR
Loan from a parent company	135,000,000	135,000,000

On 30 December 2015, the Company has received a non-commission based loan amounting to SR 135 million from its parent company (Abdullah A. M. Al Khodari Sons Investment Holding Co.) for the purpose of funding working capital and capex requirements of the Company. The loan is repayable within a period not exceeding 31 December 2018.

The loan is secured against a promissory note for an amount equaling to the amount of loan.

21. SHARE CAPITAL

Share capital is divided into 55.781 million shares (2015: 53.125 million shares) of SR 10 each.

The Board of Directors of the Company, at its meeting held on 23 Ramadan 1437 H corresponding to 28 June 2016, recommended to increase the Company's share capital by 5% by way of capitalizing a part of the retained earnings through the issuance of one bonus share for every twenty shares held by the shareholders. As a result, the share capital of the Company has been increased from SR 531.25 million to SR 557.812 million. Legal formalities in this regard have been duly completed.

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22. DIRECTORS' REMUNERATION

Under Company's bye-laws, the members of board of directors are entitled to a remuneration of 10% of the net income to the maximum of SR 200,000 per board member, after the distribution of the minimum amount of dividends or bonus shares.

The Company paid directors' remuneration of SR 1.2 million during 2016 (2015: SR 1.2 million) approved by the shareholders in the General Assembly.

23. SELLING AND MARKETING EXPENSES

	2016	2015
	<u>SR</u>	<u>SR</u>
Employees' cost	3,621,347	6,701,127
Bidding expenses	1,349,173	4,883,766
Advertisement	779,505	943,780
Others	799,160	2,574,153
	<u>6,549,185</u>	<u>15,102,826</u>

24. GENERAL AND ADMINISTRATION EXPENSES

	2016	2015
	<u>SR</u>	<u>SR</u>
Employees' costs	30,140,761	47,692,543
Depreciation	1,513,616	2,846,614
Bonus	1,576,687	3,095,983
Donations	2,027,643	1,125,759
Rent	3,455,361	3,728,573
Professional fees	1,255,809	1,474,509
Travel	826,677	714,038
Insurance	892,737	1,118,811
Others	4,231,438	6,362,446
	<u>45,920,729</u>	<u>68,159,276</u>

25. OTHER INCOME, NET

	2016	2015
	<u>SR</u>	<u>SR</u>
Gains on disposal of assets held for sale	14,295,240	41,064,354
Refund of work permit levy	23,596,800	-
Reversal of bad debts previously written off	127,376	-
Rental income	1,460,740	5,108,220
Miscellaneous	4,133,863	1,554,521
	<u>43,614,019</u>	<u>47,727,095</u>

25.1 In November 2015, the Company has submitted claims for eligible projects to the Government under the Human Resource Development Fund (HRDF) scheme for the refund of increased work permit levy. During the year ended 31 December 2016, SR 23.6 million (31 December 2015: Nil) has been received by the Company in this regard.

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26. CONTINGENT LIABILITIES

The Company's bankers have issued performance guarantees, on behalf of the Company, amounting to SR 473 million (2015: SR 454.38 million).

27. OPERATING LEASE COMMITMENTS

The Company enters into operating lease arrangements for renting motor vehicles, equipment and housing premises. Leases are negotiated and rentals are fixed for a period from one to 3 years.

	2016	2015
	<u>SR</u>	<u>SR</u>
Operating lease rentals recognized as expense	51,156,197	55,441,500
Future rental commitment under operating leases are as follows:	2016	2015
	<u>SR</u>	<u>SR</u>
Amounts due within one year	34,539,586	40,854,144
Amounts due between one and three years	1,595,280	50,492,386
	<u>36,134,866</u>	<u>91,346,530</u>

28. (LOSS) / EARNINGS PER SHARE

(Loss) / Earnings per share have been calculated based on the weighted average number of shares during the year. In view of the capitalization of a part of the retained earnings through the issuance of one bonus share for every twenty shares held by the shareholders as also stated in note 21, the calculation of (loss) / earnings per share for the comparative year presented have been restated.

29. SEGMENT INFORMATION

Consistent with the Company's internal reporting process, business segments have been approved by management in respect of the Company's activities. Transactions between the business segments are reported at cost. The Company's revenue, gross profit and net assets by business segment, are as follows:

	<i>Contracting</i> <u>SR</u>	<i>Trading</i> <u>SR</u>	<i>Total</i> <u>SR</u>
	31 December 2016		
Revenues	1,026,072,437	4,257,796	1,030,330,233
Gross loss	(50,621,792)	(1,689,566)	(52,311,358)
Net assets	765,073,407	5,142,769	770,216,176
	31 December 2015		
Revenues	1,558,714,279	11,224,646	1,569,938,925
Gross profit	114,703,245	3,272,024	117,975,269
Net assets	880,911,522	8,484,939	889,396,461

All of the Company's operations are located in the Kingdom of Saudi Arabia.

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30. 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 exposed to commission rate risk on its commission bearing liabilities. To manage the commission rate risk on the loans, the Company monitors market commission rate movements and its cost of funding on a regular basis.

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. A substantial portion of the Company's business is with government authorities. The Company seeks to manage its credit risk with respect to customers by closely monitoring outstanding receivables.

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's terms of services and sales require amounts to be paid within 45 to 90 days of the date of billings. Trade payables are normally settled within 30 to 180 days of the date of billings. The Company is determined for significant growth in its operations and focuses on improvement in collections from its customers, borrowing more funds from commercial banks and other sources to manage its liquidity.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company undertakes its transactions mainly in Saudi Riyal and United States Dollar. As Saudi Riyals are pegged to US Dollars, balances in US Dollars are not considered to represent significant currency risk.

31. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of bank balances and cash, investments, receivable and amounts due from related parties. Financial liabilities consist of bank loans, dividend payable, amounts due to related parties, payables and loan from an affiliate.

The fair values of financial assets and liabilities are not materially different from their carrying values at the balance sheet date.

32. TRANSITION TO IFRS

SOCPA has approved a plan for transition to International Financial Reporting Standards. The plan requires that effective from January 1, 2017 all the companies listed on Saudi Stock Exchange ("Tadawul") shall prepare their financial statements in accordance with the International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the SOCPA. Accordingly, effective from January 1, 2017, the Company shall prepare its financial statements in accordance with IFRS.

33. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform the presentation in the current year.

34. DATE OF APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors of the Company on March 15, 2017-G corresponding to Jumada 'II, 16, 1438-H.