

RED SEA INTERNATIONAL COMPANY
(A SAUDI JOINT STOCK COMPANY)
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
30 SEPTEMBER 2019

RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019

Table of contents

	Page
Independent auditors' review report	1
Interim condensed consolidated statement of profit or loss	2
Interim condensed consolidated statement of comprehensive income	3
Interim condensed consolidated statement of financial position	4
Interim condensed consolidated statement of changes in equity	5
Interim condensed consolidated statement of cash flows	6-7
Notes to the interim condensed consolidated financial statements	8-18

INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)

Introduction:

We have reviewed the accompanying interim condensed consolidated statement of financial position of Red Sea International Company ("the Company") and its subsidiaries (collectively referred to as "the Group") as at 30 September 2019, and the related interim condensed consolidated statements of profit or loss and comprehensive income for the three and nine month periods ended 30 September 2019, and the related interim condensed consolidated statements of changes in equity and cash flows for the nine month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review:

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial statements consists of making inquiries, primarily to persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young



Marwan Al-Afaliq
Certified Public Accountant
License No. 422




7 Rabi' al-Awwal 1441H
4 November 2019

Alkhobar

RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)
INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

	Note	For the three-month period ended 30 September		For the nine-month period ended 30 September	
		2019	2018	2019	2018
		SR'000	SR'000	SR'000	SR'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues	4	153,180	188,499	412,184	537,358
Cost of revenues		(150,856)	(172,746)	(400,782)	(489,687)
GROSS PROFIT		2,324	15,753	11,402	47,671
EXPENSES					
Selling and distribution		(8,503)	(8,740)	(25,086)	(26,201)
General and administration		(17,663)	(14,387)	(48,621)	(45,194)
OPERATING LOSS		(23,842)	(7,374)	(62,305)	(23,724)
Other expenses, net		(58)	(924)	(95)	(221)
Finance costs		(3,953)	(3,266)	(10,776)	(9,821)
Finance income		500	301	1,295	730
LOSS BEFORE ZAKAT AND INCOME TAX		(27,353)	(11,263)	(71,881)	(33,036)
Income tax	7	(383)	(490)	(310)	(1,028)
Zakat	7	(1,000)	(3,409)	(4,000)	(7,692)
LOSS FOR THE PERIOD		(28,736)	(15,162)	(76,191)	(41,756)
ATTRIBUTABLE TO:					
Equity holders of the Parent Company		(27,888)	(13,780)	(73,381)	(39,013)
Non-controlling interests		(848)	(1,382)	(2,810)	(2,743)
		(28,736)	(15,162)	(76,191)	(41,756)
LOSS PER SHARE:					
Basic and diluted, loss per share attributable to the equity holders of the Parent Company	8	(0.46)	(0.23)	(1.22)	(0.65)





RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)
INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

	<i>For the three-month period ended 30 September</i>		<i>For the nine-month period ended 30 September</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Loss for the period	(28,736)	(15,162)	(76,191)	(41,756)
Other comprehensive income				
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods net of zakat and tax:</i>				
Exchange differences on translation of foreign operations	(542)	(428)	738	(1,310)
Other comprehensive (loss)/income, net of zakat and tax	(542)	(428)	738	(1,310)
TOTAL COMPREHENSIVE LOSS	(29,278)	(15,590)	(75,453)	(43,066)
ATTRIBUTABLE TO:				
Equity holders of the Parent Company	(28,430)	(14,208)	(72,643)	(40,323)
Non-controlling interests	(848)	(1,382)	(2,810)	(2,743)
	(29,278)	(15,590)	(75,453)	(43,066)

RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2019

		30 September 2019 SR'000 (Unaudited)	31 December 2018 SR'000 (Audited)
	Note		
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		143,280	159,121
Investment properties		381,336	399,322
Right-of-use assets		34,129	-
Intangible assets		38,701	41,041
Trade receivables	5	48,561	48,561
Long-term prepayments		-	4,723
TOTAL NON-CURRENT ASSETS		646,007	652,768
CURRENT ASSETS			
Inventories		95,415	122,351
Trade receivables		152,976	225,261
Contract assets		20,198	21,877
Advances to suppliers		15,745	12,105
Prepayment and other receivables		29,060	41,092
Cash and cash equivalents		136,629	86,656
TOTAL CURRENT ASSETS		450,023	509,342
TOTAL ASSETS		1,096,030	1,162,110
EQUITY AND LIABILITIES			
EQUITY			
Share capital	6	600,000	600,000
Statutory reserve		129,260	129,260
Accumulated losses		(85,510)	(12,129)
Foreign currency translation reserve		(5,111)	(5,849)
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY		638,639	711,282
NON-CONTROLLING INTERESTS		(16,268)	(13,458)
TOTAL EQUITY		622,371	697,824
NON-CURRENT LIABILITIES			
Interest bearing loans and borrowings		53,902	85,418
Non-current portion of lease liabilities		18,494	-
Employees' defined benefit liabilities		33,890	38,025
Other non-current liabilities		17,150	16,657
TOTAL NON-CURRENT LIABILITIES		123,436	140,100
CURRENT LIABILITIES			
Trade payables		58,334	60,759
Accruals and other current liabilities		77,277	78,335
Short-term interest bearing loans and borrowings		111,133	90,500
Current portion of interest bearing loans and borrowings		43,524	48,805
Current portion of lease liabilities		6,963	-
Advances from customers		31,125	19,258
Provision for zakat and income tax	7	21,867	26,529
TOTAL CURRENT LIABILITIES		350,223	324,186
TOTAL LIABILITIES		473,659	464,286
TOTAL EQUITY AND LIABILITIES		1,096,030	1,162,110

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019

	Attributed to shareholders of the parent Company					Non- controlling interests SR '000	Total SR '000	Total equity SR '000
	Share capital SR '000	Statutory reserve SR '000	Retained earnings/ (accumulated losses) SR '000	Foreign currency translation reserve SR '000	Total SR '000			
Balance at 1 January 2018- (audited)	600,000	129,260	91,710	(3,626)	817,344	(8,135)		809,209
Impact of IFRS 9 and 15 adoption	-	-	(14,550)	-	(14,550)	-		(14,550)
Balance at 1 January 2018 - (unaudited)	600,000	129,260	77,160	(3,626)	802,794	(8,135)		794,659
Loss for the period	-	-	(39,013)	-	(39,013)	(2,743)		(41,756)
Other comprehensive loss	-	-	-	(1,310)	(1,310)	-		(1,310)
Total comprehensive loss	-	-	(39,013)	(1,310)	(40,323)	(2,743)		(43,066)
Balance at 30 September 2018- (Unaudited)	600,000	129,260	38,147	(4,936)	762,471	(10,878)		751,593
Balance at 1 January 2019- (audited)	600,000	129,260	(12,129)	(5,849)	711,282	(13,458)		697,824
Loss for the period	-	-	(73,381)	-	(73,381)	(2,810)		(76,191)
Other comprehensive income	-	-	-	738	738	-		738
Total comprehensive loss	-	-	(73,381)	738	(72,643)	(2,810)		(75,453)
Balance at 30 September 2019 - (Unaudited)	600,000	129,260	(85,510)	(5,111)	638,639	(16,268)		622,371



The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019

	<i>For the nine-month period ended 30 September</i>	
	<i>2019</i>	<i>2018</i>
	<i>SR'000</i>	<i>SR'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
OPERATING ACTIVITIES		
Loss before zakat and income tax	(71,881)	(33,036)
Adjustments to reconcile losses before zakat and income tax to net cash flows:		
Depreciation of property, plant and equipment	16,857	16,558
Depreciation of investment properties	44,361	50,216
Amortization of intangible assets	3,388	3,542
Depreciation of right-of-use assets	8,700	-
Movement in employees' defined benefit liabilities, net	(4,135)	(4,248)
Financial costs	10,776	9,821
Losses/(gains) on disposal of property, plant and equipment	67	(72)
	8,133	42,781
Working capital adjustments:		
Inventories	7,103	29,075
Trade receivables	72,285	(51,171)
Contract assets	1,679	(6,385)
Advances to suppliers	(3,640)	(733)
Prepayment and other receivables	9,555	3,869
Trade receivable - non current	-	7,763
Long-term prepayments	-	322
Trade payables	(2,425)	17,376
Accruals and other current liabilities	(1,058)	(4,048)
Other non-current liabilities	493	(4,938)
Advances from customers	11,867	2,292
	103,992	36,203
Cash from operations		
Finance cost paid	(9,745)	(9,821)
Zakat and income tax paid	(8,972)	(5,979)
	85,275	20,403
Net cash from operating activities		
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(3,371)	(3,945)
Purchase of investment properties	(4,511)	(2,604)
Purchase of intangible assets	(1,048)	-
Proceeds from disposal of property, plant and equipment	167	2,670
	(8,763)	(3,879)
Net cash used in investing activities		
FINANCING ACTIVITIES		
Proceeds from the interest bearing loans and borrowings	85,633	113,106
Repayment of interest bearing loans and borrowings	(101,797)	(126,035)
Payments for lease liabilities	(11,203)	-
	(27,367)	(12,929)
Net cash used in financing activities		
INCREASE IN CASH AND CASH EQUIVALENTS		
	49,145	3,595
Cash and cash equivalents at the beginning of the period	86,656	85,102
Movement in foreign currency translation reserve, net	828	(1,310)
	136,629	87,387
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		

(continued)

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
(continued)
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019

<i>For the nine-month period ended 30 September</i>	
<i>2019</i>	<i>2018</i>
<i>SR'000</i>	<i>SR'000</i>
<i>(Unaudited)</i>	<i>(Unaudited)</i>

SIGNIFICANT NON-CASH TRANSACTIONS:

Recognition of right-of-use assets on first time adoption of IFRS 16	38,829	-
Recognition of lease liabilities on first time adoption of IFRS 16	31,629	-
Derecognition of prepayments on first time adoption of IFRS 16	7,200	-
Financial charges on lease liabilities against right of use assets	1,031	-


Tariq Al-Mutairi - CEO

RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) AT 30 SEPTEMBER 2019

1 CORPORATE INFORMATION

- 1.1 Red Sea International Company (the "Company") ("Parent Company") and its subsidiaries (collectively the "Group") consist of the Company, a Saudi joint stock company, and its Saudi Arabian and foreign subsidiaries and branches. The Company is registered in Jeddah, Kingdom of Saudi Arabia under commercial registration No 4030286984, pursuant to Ministerial Resolution No. 2532 dated 2 Ramadan 1427H (September 25, 2006). The registered address of the Company is Jeddah, Al Rawdah district, Prince Mohammed Bin Abdulaziz street, Kingdom of Saudi Arabia. The Company have the following branches in the Kingdom of Saudi Arabia:

Branch	Commercial	Location
Red Sea International Company	2055003672	Jubail
Red Sea International Company	2055006105	Jubail
Red Sea Housing Services Company	4602004769	Rabigh

- 1.2 The Group is controlled by Al-Dabbagh Group, (including through its subsidiaries), which owns 70% (effective holding) of the Company's shares. Following is the list of principal operating subsidiaries included in the Group:

	Country of incorporation	Effective ownership percentage	
		30 September 2019	31 December 2018
Red Sea Housing Services (Ghana) Limited ("RSG")	Ghana	100%	100%
SARL Red Sea Housing Services Algeria Limited ("RSA")	Algeria	98%	98%
Red Sea Housing Services Company Dubai FZE ("RSD")	UAE	100%	100%
Red Sea Building Materials and Equipments Trading Company ("RSBM")	Saudi Arabia	100%	100%
Premier Paints Company ("PPC")	Saudi Arabia	81%	81%
Red Sea Housing Services (Mozambique), LDA ("RSM")	Mozambique	100%	100%
Red Sea Housing Services LLC ("RSO")	Oman	100%	100%
Red Sea Housing Services Pty Ltd. ("RSHSP")	Australia	100%	100%
Red Sea Housing Malaysia Sdn. Bhd. ("RSHM")	Malaysia	90%	90%
Red Sea Modular Rentals LLC ("RSMR")	UAE	100%	100%
Red Sea Construction LLC ("RSC")	UAE	100%	100%
Red Sea Housing Company PNG Limited ("RSHP")	Papua New Guinea	100%	100%

The Company also owns subsidiaries, registered in Qatar, Nigeria, Libya, Saudi Arabia, Singapore and Malaysia, consolidated in these consolidated financial statements, which are either in early stages of operations or have not commenced any commercial operations. Further, the Company also has licenses to operate branches in Papua New Guinea, Abu Dhabi, Afghanistan and Equatorial Guinea. Branches in Abu Dhabi, Afghanistan and Equatorial Guinea that have no commercial operations during the period ended 30 September 2019.

- 1.3 The principal activities of the Group are to purchase land and real estate for the purpose of developing them and to build residential and commercial buildings thereon, and to ultimately sell or lease them. The Group's activities also includes manufacturing non-concrete residential units, general contracting, maintenance, construction of utilities and civil work, supply of food, provision of food services and trade of food products. In addition, the Group is also involved in manufacturing and sale of paints and providing related services.
- 1.4 The interim condensed consolidated financial statements of the Group for the nine-month period ended 30 September 2019 were authorised for issuance in accordance with the Board of Directors resolution dated 4 November 2019 (corresponding to 7 Rabi' al-Awwal 1441 H).

RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(continued)

AT 30 SEPTEMBER 2019

2 BASIS OF PREPARATION AND CHANGES TO GROUP'S ACCOUNTING POLICIES

2.1 Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as endorsed in Kingdom of Saudi Arabia (KSA). The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018. In addition the results of the operations for the period ended 30 September 2019 do not necessarily represent an indicator for the results of the operations for the year ending 31 December 2019.

These interim condensed consolidated financial statements are prepared using historical cost convention except for employees defined benefits for which the actuarial present value calculation is used.

These interim condensed consolidated financial statements are presented in Saudi Riyals ("SR") which is also the functional currency of the Group. All values are rounded to the nearest thousands ("SR '000"), except when otherwise indicated.

2.2 New standards, interpretation and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

The Group applies, for the first time, IFRS 16 Leases that requires restatement of previous financial statements. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group. As required by IAS 34, the nature and effect of these changes are disclosed below:

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Since the Group recognized the right-of-use assets at the amount equal to the lease liabilities, there was no impact to the retained earnings. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption of IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	SR'000
Assets	
Right-of-use assets	38,829
Prepayments	(2,477)
Long-term prepayments	(4,723)
Total assets	31,629
Liabilities	
Lease liabilities	31,629

RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(continued)

AT 30 SEPTEMBER 2019

2 BASIS OF PREPARATION AND CHANGES TO GROUP'S ACCOUNTING POLICIES (continued)

2.2 New standards, interpretation and amendments adopted by the Group (continued)

IFRS 16 Leases (continued)

The Group has lease contracts for factory land. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under prepayments and trade and other payables, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

Leases previously classified as finance leases

The Group did not have any liabilities recognised as finance lease liabilities at the date of initial application of IFRS 16.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of SR 38.8 million were recognised and presented separately in the interim condensed consolidated statement of financial position.
- Lease liabilities of SR 31.6 million were recognised and presented separately in the interim condensed consolidated statement of financial position.
- Prepayments, including non-current prepayments, of SR 7.2 million were derecognised.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	<i>SR'000</i>
Operating lease commitments as at 31 December 2018	36,722
Discounting impact for gross lease liabilities	(4,168)
Impact of short-term and low value leases	(925)
Lease liabilities as at 1 January 2019	31,629

At 1 January 2019, gross lease liabilities have been discounted using weighted average incremental borrowing rate of 5.5%.

RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(continued)

AT 30 SEPTEMBER 2019

2 BASIS OF PREPARATION AND CHANGES TO GROUP'S ACCOUNTING POLICIES (continued)

2.3 Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below SR 18,750). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

2.4 Amounts recognised in the interim condensed consolidated statement of financial position and statement of profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	<i>Right-of-use assets SR'000</i>	<i>Lease liabilities SR'000</i>
As at 1 January 2019	38,829	31,629
Additions	4,000	4,000
Depreciation expense	(8,700)	-
Interest expense	-	1,031
Payments	-	(11,203)
As at 30 September 2019	34,129	25,457

RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(continued)

AT 30 SEPTEMBER 2019

3 SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

The preparation of the Group's interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of asset or liability affected in future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual consolidated financial statements, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 16, as described in note 2 above.

4 REVENUES

	<i>For the three-month period ended 30 September</i>		<i>For the nine-month period ended 30 September</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<i>Revenue from the contract with customers</i>				
Contract revenue	89,526	110,773	222,601	304,789
Sale of paint and paint related products and services	10,547	10,735	29,193	33,290
	100,073	121,508	251,794	338,079
<i>Other revenue</i>				
Rental revenue from investment properties	53,107	66,991	160,390	199,279
	153,180	188,499	412,184	537,358

Reconciliation of the Group's disaggregate revenue for its reportable segments and timing of revenue recognition is disclosed in note 12.

5 TRADE RECEIVABLES

In 2016, the Group filed a legal case in Houston, Texas, USA against one of its customers, its subsidiaries and its directors (for the construction of a camp facility based in Angola), demanding repayment of receivable balances due from this customer. The customer had failed to meet its obligations for timely transfer of funds to the Group as per the repayment schedule due to certain restrictions on repatriation of the funds in foreign currency out of Angola. The law firm representing the Group, based on a preliminary assessment, had expected to reach an outcome of this legal case within 24 months from the date of the filing of the legal case. Following the extended discussions and negotiations between the customer and the Group, the customer agreed to execute legal documentation acknowledging the debt and giving the Group a claim over the camp in Angola, which would allow the Group the right to take a secondary charge over the assets.

Considering the above, the Group has filed its claim against the customer with the relevant court in Angola and will proceed in accordance with local laws in Angola and also decided to withdraw its legal proceedings in Houston, Texas, USA. It is difficult to assess the extent of any final recovery and time-frame involved at this stage, as there are other lenders and creditors involved whose claims are undefined.

6 SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is divided into 60 million shares (31 December 2018: same) of SR 10 each.

RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(continued)

AT 30 SEPTEMBER 2019

7 ZAKAT AND INCOME TAX

a) Zakat

The zakat assessments of the Company and its wholly owned Saudi subsidiaries as a whole have been agreed with the General Authority of Zakat and Tax ("the GAZT") up to 2010. The zakat declarations until years 2018 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT from 2011 through 2018.

During 2018, the General Authority of Zakat and Income Tax ("GAZT") had issued additional assessments for the years 2007 to 2010 amounting to SR 10.8 million for the Company and its wholly owned subsidiaries. The Company filed an appeal against the GAZT assessments for the said period and, during the current period, the Company settled the assessments for SR 2.3 million.

Further in 2018, PPC (a subsidiary) received additional zakat assessment from the GAZT for the years 1999 to 2014 amounting to SR 2.7 million. The Company received a revised assessment for the same years amounting to SR 2.6 million in July 2019. The Company has filed appeals against the assessments. The management has filed an appeal against these assessments and believes that the outcome of this appeal will be in the favor of the Company.

On conservative basis, the Company maintains sufficient provision in the books to account for any liability arising upon the ultimate resolution of additional assessments.

b) Income tax

Income tax provision is provided for in accordance with authorities in which the Group's subsidiaries operate outside the Kingdom of Saudi Arabia. Income tax has been computed based on the managements' understanding of the income tax regulations enforced in their respective countries. The income tax regulations are subject to different interpretations, and the assessments to be raised by the tax authorities could be different from the income tax returns filed by the respective company.

Zakat and income tax has been computed based on the Group's understanding and interpretation of the zakat and income tax regulations enforced in the Kingdom of Saudi Arabia. The GAZT continues to issue circulars to clarify certain zakat and tax regulations which are usually enforced on all open years. The zakat regulations in Saudi Arabia are subject to different interpretations and new zakat regulations have been issued by the GAZT dated 1 Jumada II 1438H (corresponding to 28 February 2017). The zakat and income tax liability as computed by the Group could be different from zakat and income tax liability as assessed by the GAZT for years for which assessments have not yet been raised by the GAZT.

8 LOSSES PER SHARE

Basic and diluted losses per share is calculated by dividing the loss for the period attributable to the Shareholders of the Parent Company by the weighted average number of outstanding shares during the period as follows:

	<i>For the three-month period ended 30 September</i>		<i>For the nine-month period ended 30 September</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Loss for the period attributable to the shareholders of the Parent Company (SR '000)	(27,888)	(13,780)	(73,381)	(39,013)
Weighted average number of outstanding shares during the period (share '000)	60,000	60,000	60,000	60,000
Basic and diluted loss per share attributable to the shareholders of the Parent Company (SR)	<u>(0.46)</u>	<u>(0.23)</u>	<u>(1.22)</u>	<u>(0.65)</u>

9 CONTINGENT LIABILITIES

At the reporting date, the Group had outstanding bank guarantees and letter of credit amounting to approximately SR 88.3 million (31 December 2018: SR 35.9 million) issued in the normal course of business.

RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(continued)
AT 30 SEPTEMBER 2019

10 CAPITAL COMMITMENTS

At the reporting date, the capital commitments amounted to SR 4.5 million (31 December 2018: SR 3.7 million).

11 RELATED PARTY TRANSACTIONS' AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Group, and entities controlled or significantly influenced by such parties. The ultimate parent company of the Group is Dabbagh Group Holding Company limited (a Saudi Closed Joint Stock Company) registered in Jeddah, Kingdom of Saudi Arabia.

The Group in the normal course of business carries out transactions with various related parties. Transactions with related parties' included in the interim condensed consolidated statement of income are as follows:

<i>Relationship and name of related party</i>	<i>Nature of transactions</i>	<i>For the nine-month period ended 30 September</i>	
		<i>2019</i>	<i>2018</i>
		<i>SR'000</i>	<i>SR'000</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
<i>Other related parties</i>	Rental charges	663	663
	Payment on behalf ultimate parent company	60	-
	Payment against insurance premium	205	-
	Purchases	-	119

The remuneration of the key management personnel during the period was as follows:

	<i>For the nine-month period ended 30 September</i>	
	<i>2019</i>	<i>2018</i>
	<i>SR'000</i>	<i>SR'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Short term benefits	6,085	3,432
Employees' end-of-service benefits	231	134
	6,316	3,566

Pricing policies and terms of payments of transactions with related parties are approved by the Board of Directors. Outstanding balances at the period-end are unsecured, interest free and settled in cash.

Trade receivables includes an amount of SR 15.3 million (31 December 2018: SR 15.3 million) due from a related party.

Amounts due to a related party at 30 September 2019 amounting to SR 546 thousands (31 December 2018: SR 606 thousands) have been included in the accounts payable in interim consolidated statement of financial position.

12 SEGMENTAL INFORMATION

For management purposes, the Group is organised into business units based on its products and services and has following reportable segments:

- Manufacturing and sale of non-concrete residential and commercial buildings ("Non-concrete residential and commercial buildings");
- Rentals from investment properties; and
- Manufacturing and sale of paints and related services ("Paints and related services")

The Board of directors monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on income and is measured consistently in the interim condensed consolidated financial statements.

RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(continued)
AT 30 SEPTEMBER 2019

12 SEGMENTAL INFORMATION (continued)

The following tables present revenue and (loss)/profit information for the Group's operating segments for the three-month and nine-month periods ended 30 September 2019 and 2018, respectively:

Business segments

	<i>For the three-month period ended 30 September 2019</i>				<i>For the three-month period ended 30 September 2018</i>			
	<i>Non-concrete residential and commercial buildings</i>	<i>Rentals from investment properties</i>	<i>Paints and related services</i>	<i>Total segments</i>	<i>Non-concrete residential and commercial buildings</i>	<i>Rentals from investment properties</i>	<i>Paints and related services</i>	<i>Total segments</i>
	<i>Unaudited (SR'000)</i>				<i>Unaudited (SR'000)</i>			
<i>Revenue:</i>								
Total segment revenue	89,526	53,107	11,030	153,663	110,773	66,991	10,953	188,717
Intersegment revenue elimination	-	-	(483)	(483)	-	-	(218)	(218)
Revenue from external customers	89,526	53,107	10,547	153,180	110,773	66,991	10,735	188,499
<i>Timing of revenue recognition:</i>								
At a point in time	77,340	-	10,547	87,887	110,696	-	10,735	121,431
Over time	12,186	53,107	-	65,293	77	66,991	-	67,068
	89,526	53,107	10,547	153,180	110,773	66,991	10,735	188,499
Segment (loss)/profit	(25,483)	1,493	(4,746)	(28,736)	(8,659)	(2,280)	(4,223)	(15,162)
	<i>For the nine-month period ended 30 September 2019</i>				<i>For the nine-month period ended 30 September 2018</i>			
	<i>Unaudited (SR'000)</i>				<i>Unaudited (SR'000)</i>			
	<i>Non-concrete residential and commercial buildings</i>	<i>Rentals from investment properties</i>	<i>Paints and related services</i>	<i>Total segments</i>	<i>Non-concrete residential and commercial buildings</i>	<i>Rentals from investment properties</i>	<i>Paints and related services</i>	<i>Total segments</i>
<i>Revenue:</i>								
Total segment revenue	222,601	160,390	30,276	413,267	304,789	199,279	34,244	538,312
Intersegment revenue elimination	-	-	(1,083)	(1,083)	-	-	(954)	(954)
Revenue from external customers	222,601	160,390	29,193	412,184	304,789	199,279	33,290	537,358
<i>Timing of revenue recognition:</i>								
At a point in time	203,295	-	29,193	232,488	267,728	-	33,290	301,018
Over time	19,306	160,390	-	179,696	37,061	199,279	-	236,340
	222,601	160,390	29,193	412,184	304,789	199,279	33,290	537,358
Segment (loss)/profit	(65,969)	4,840	(15,062)	(76,191)	(44,181)	11,039	(8,614)	(41,756)

RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(continued)
AT 30 SEPTEMBER 2019

12 SEGMENTAL INFORMATION (continued)

The following table presents assets and liabilities information for the Group's operating segments as at 30 September 2019 and 31 December 2018, respectively:

	<i>At 30 September 2019</i>				<i>At 31 December 2018</i>			
	<i>Non-concrete residential and commercial buildings</i>	<i>Rentals from investment properties</i>	<i>Paints and related services</i>	<i>Total segments</i>	<i>Non- concrete residential and commercial buildings</i>	<i>Rentals from investment properties</i>	<i>Paints and related services</i>	<i>Total segments</i>
	<i>Unaudited (SR '000)</i>				<i>Audited (SR '000)</i>			
Total assets	492,934	531,664	71,432	1,096,030	541,295	545,270	75,545	1,162,110
Total liabilities	384,069	65,262	24,328	473,659	378,888	59,349	26,049	464,286

During the nine-month period ended 30 September 2019, approximately 50% of the total revenues from non-concrete residential and commercial buildings segment were derived from 10 customers (30 September 2018: approximately 74% from 7 customers). During the nine-month period ended 30 September 2019, approximately 69% of the total revenues from rental segment were derived from 5 customers (30 September 2018: approximately 84% from 4 customers).

The Group's operations are conducted in Saudi Arabia, UAE, Ghana, Papua New Guinea, Algeria, Malaysia and certain other locations. The following tables present revenue and (loss)/profit information for the Group's geographical segments for the three-month and nine-month periods ended 30 September 2019 and 2018, respectively:

	<i>For the three-month period ended 30 September 2019</i>							
	<i>Saudi Arabia</i>	<i>UAE</i>	<i>Ghana</i>	<i>Papua New Guinea</i>	<i>Algeria</i>	<i>Malaysia</i>	<i>Others</i>	<i>Total</i>
	<i>Unaudited (SR '000)</i>							
Total segment revenue	104,171	27,216	10,550	11,680	2,114	991	681	157,403
Intersegment revenue elimination	(483)	(3,099)	-	-	-	(641)	-	(4,223)
Revenue from external customers	103,688	24,117	10,550	11,680	2,114	350	681	153,180
the period	(15,677)	(4,835)	(2,714)	(643)	(374)	(3,961)	(532)	(28,736)
	<i>For the three-month period ended 30 September 2018</i>							
	<i>Saudi Arabia</i>	<i>UAE</i>	<i>Ghana</i>	<i>Papua New Guinea</i>	<i>Algeria</i>	<i>Malaysia</i>	<i>Others</i>	<i>Total</i>
	<i>Unaudited (SR '000)</i>							
Total segment revenue	123,502	45,789	16,461	9,584	1,854	77	113	197,380
Intersegment revenue elimination	(218)	(7,968)	(695)	-	-	-	-	(8,881)
Revenue from external customers	123,284	37,821	15,766	9,584	1,854	77	113	188,499
Segmental profit/ (loss) for the period	1,294	(3,052)	(2,099)	(444)	(852)	(9,618)	(391)	(15,162)

RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(continued)
AT 30 SEPTEMBER 2019

12 SEGMENTAL INFORMATION (continued)

For the nine-month period ended 30 September 2019

	<i>Saudi Arabia</i>	<i>UAE</i>	<i>Ghana</i>	<i>Papua New Guinea</i>	<i>Algeria</i>	<i>Malaysia</i>	<i>Others</i>	<i>Total</i>
	<i>Unaudited (SR '000)</i>							
Total segment revenue	273,853	87,531	24,114	28,032	5,593	1,312	8,654	429,089
Intersegment revenue elimination	(1,083)	(14,919)	(17)	-	-	(886)	-	(16,905)
Revenue from external customers	272,770	72,612	24,097	28,032	5,593	426	8,654	412,184
Segmental profit/ (loss) for the period	(43,972)	(8,036)	(11,571)	1,232	(1,373)	(11,573)	(898)	(76,191)

For the nine-month period ended 30 September 2018

	<i>Unaudited (SR '000)</i>							
	<i>Saudi Arabia</i>	<i>UAE</i>	<i>Ghana</i>	<i>Papua New Guinea</i>	<i>Algeria</i>	<i>Malaysia</i>	<i>Others</i>	<i>Total</i>
Total segment revenue	337,898	95,800	51,312	15,677	6,899	37,061	6,307	550,954
Intersegment revenue elimination	(954)	(9,588)	(3,054)	-	-	-	-	(13,596)
Revenue from external customers	336,944	86,212	48,258	15,677	6,899	37,061	6,307	537,358
Segmental profit/ (loss) for the period	4,618	(11,206)	(4,006)	(4,273)	(3,702)	(22,491)	(696)	(41,756)

The following table presents assets and liabilities information for the Group's geographical segments as at 30 September 2019 and 31 December 2018, respectively:

At 30 September 2019

	<i>Saudi Arabia</i>	<i>UAE</i>	<i>Ghana</i>	<i>Papua New Guinea</i>	<i>Algeria</i>	<i>Malaysia</i>	<i>Others</i>	<i>Total</i>
	<i>Unaudited (SR '000)</i>							
Total assets	739,079	169,573	96,106	50,162	27,648	8,205	5,257	1,096,030
Total liabilities	316,968	71,719	8,976	5,749	2,592	66,729	926	473,659

At 31 December 2018

	<i>Saudi Arabia</i>	<i>UAE</i>	<i>Ghana</i>	<i>Papua New Guinea</i>	<i>Algeria</i>	<i>Malaysia</i>	<i>Others</i>	<i>Total</i>
	<i>Audited (SR '000)</i>							
Total assets	797,037	159,785	106,975	51,156	28,652	13,250	5,255	1,162,110
Total liabilities	318,960	59,766	12,367	6,641	3,096	62,112	1,344	464,286

13 FAIR VALUES OF FINANCIAL INSTRUMENTS

The management assessed that the fair values of cash and cash equivalents, accounts receivable, contract assets, other current assets, accounts payable, term and short-term loans and other current liabilities approximate their carrying values largely due to the short-term maturities of these financial instruments.

The management has assessed the fair value of non-current accounts receivables, other non-current assets, term loans and other non-current liabilities based on level 2 hierarchy, which is not materially different from their respective carrying values.

14 SUBSEQUENT EVENTS

In the opinion of management, there have been no further significant subsequent events since the period ended 30 September 2019 that would have a material impact on the financial position of the Group as reflected in these interim condensed consolidated financial statements.

15 COMPARATIVE FIGURES

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