RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 SEPTEMBER 2018

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Building a better working world

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INDEPENDENT AUDITORS' LIMITED REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY (A 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 2018, and the related interim condensed consolidated statements of profit or loss and comprehensive income for the three and nine-month periods ended 30 September 2018, 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

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30 Safar 1440H
8 November 2018
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 2018

	Note	***For the three-month period ended 30 September***		***For the nine-month period ended 30 September***	
		2018	*2017*	***2018***	*2017*
		SR'000	*SR'000*	***SR'000***	*SR'000*
		(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
Revenues		**188,499**	186,229	**537,358**	612,351
Cost of revenues		**(170,274)**	(162,758)	**(482,534)**	(514,080)
GROSS PROFIT		**18,225**	23,471	**54,824**	98,271
EXPENSES					
Selling and distribution		**(8,740)**	(9,768)	**(26,201)**	(32,311)
General and administration		**(16,859)**	(21,419)	**(52,347)**	(62,114)
OPERATING (LOSSES)/PROFIT		**(7,374)**	(7,716)	**(23,724)**	3,846
Other (expense)/income, net		**(924)**	528	**(221)**	2,449
Finance costs		**(3,266)**	(3,348)	**(9,821)**	(9,229)
Finance income		**301**	56	**730**	329
LOSS BEFORE ZAKAT AND INCOME TAX		**(11,263)**	(10,480)	**(33,036)**	(2,605)
Income tax expense	8	**(490)**	(526)	**(1,028)**	(1,457)
Zakat	8	**(3,409)**	(2,029)	**(7,692)**	(5,938)
NET LOSSES FOR THE PERIOD		**(15,162)**	(13,035)	**(41,756)**	(10,000)
ATTRIBUTABLE TO:					
Shareholders of the parent Company		**(13,780)**	(12,663)	**(39,013)**	(9,534)
Non-controlling interests		**(1,382)**	(372)	**(2,743)**	(466)
		(15,162)	(13,035)	**(41,756)**	(10,000)
LOSSES PER SHARE:					
Basic and diluted, losses per share attributable to the shareholders of the parent Company	9	**(0.23)**	(0.21)	**(0.65)**	(0.16)

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

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 2018

	For the three-month period ended 30 September		***For the nine-month period ended 30 September***	
	2018	*2017*	***2018***	*2017*
	SR'000	*SR'000*	***SR'000***	*SR'000*
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
Net losses for the period	**(15,162)**	(13,035)	**(41,756)**	(10,000)
Other comprehensive income				
Other comprehensive income to be reclassified to income in subsequent periods net of zakat and tax:				
Exchange differences on translation of foreign operations	**(428)**	147	**(1,310)**	209
Other comprehensive income, net of zakat and tax	**(428)**	147	**(1,310)**	209
TOTAL COMPREHENSIVE INCOME	**(15,590)**	(12,888)	**(43,066)**	(9,791)
ATTRIBUTABLE TO:				
Shareholders of the parent company	**(14,208)**	(12,516)	**(40,323)**	(9,325)
Non-controlling interests	**(1,382)**	(372)	**(2,743)**	(466)
	(15,590)	(12,888)	**(43,066)**	(9,791)

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2018

	Note	***30 September 2018 SR'000 (Unaudited)***	*31 December 2017 SR'000 (Audited)*
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		**167,710**	182,784
Investment properties		**415,274**	463,023
Intangible assets		**42,261**	45,803
Accounts receivable	6	**65,040**	75,181
Other non-current assets		**4,831**	5,153
TOTAL NON-CURRENT ASSETS		**695,116**	771,944
CURRENT ASSETS			
Inventories		**140,470**	165,997
Contract assets		**37,445**	36,640
Accounts receivable		**232,293**	191,262
Advances to suppliers		**12,493**	11,760
Prepayment and other receivables		**36,443**	40,312
Cash and cash equivalents		**87,387**	85,102
TOTAL CURRENT ASSETS		**546,531**	531,073
TOTAL ASSETS		**1,241,647**	1,303,017
EQUITY AND LIABILITIES			
EQUITY			
Share capital	7	**600,000**	600,000
Statutory reserve		**129,260**	129,260
Retained earnings		**38,147**	91,710
Foreign currency translation reserve		**(4,936)**	(3,626)
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY		**762,471**	817,344
NON-CONTROLLING INTERESTS		**(10,878)**	(8,135)
TOTAL EQUITY		**751,593**	809,209
NON-CURRENT LIABILITIES			
Term loans		**96,224**	131,657
Employees' defined benefit liabilities		**37,054**	41,302
Other non-current liabilities		**16,537**	21,475
TOTAL NON-CURRENT LIABILITIES		**149,815**	194,434
CURRENT LIABILITIES			
Accounts payable		**65,696**	48,320
Accruals and other current liabilities		**86,069**	90,117
Short-term loans		**90,521**	40,600
Current portion of term loans		**54,590**	82,007
Advances from customers		**20,108**	17,816
Provision for zakat and income tax	8	**23,255**	20,514
TOTAL CURRENT LIABILITIES		**340,239**	299,374
TOTAL LIABILITIES		**490,054**	493,808
TOTAL EQUITY AND LIABILITIES		**1,241,647**	1,303,017

The attached notes 1 to 14 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 2018

	Attributed to shareholders of the parent Company						
	Share capital	*Statutory reserve*	*Retained earnings*	*Foreign currency translation reserve*	*Total*	*Non-controlling interests*	*Total equity*
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*
Balance at 1 January 2017- (*audited*)	600,000	129,260	210,601	(3,967)	935,894	(3,702)	932,192
Net losses for the period	-	-	(9,534)	-	(9,534)	(466)	(10,000)
Other comprehensive income	-	-	-	209	209	-	209
Total comprehensive income	-	-	(9,534)	209	(9,325)	(466)	(9,791)
Dividends paid	-	-	(45,000)	-	(45,000)	-	(45,000)
Balance at 30 September 2017- *(Unaudited)*	**600,000**	**129,260**	**156,067**	**(3,758)**	**881,569**	**(4,168)**	**877,401**
Balance at 31 December 2017 - *(audited)*	600,000	129,260	91,710	(3,626)	817,344	(8,135)	809,209
Adjustment on adoption of new accounting standards (note 3)	-	-	(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
Net losses for the period	-	-	(39,013)	-	(39,013)	(2,743)	(41,756)
Other comprehensive income	-	-	-	(1,310)	(1,310)	-	(1,310)
Total comprehensive income	-	-	(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**

The attached notes 1 to 14 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 2018

	For the nine-month period ended 30 September	
	2018	*2017*
	SR'000	*SR'000*
	(Unaudited)	*(Unaudited)*
OPERATING ACTIVITIES		
Losses before zakat and income tax	**(33,036)**	(2,605)
Adjustments to reconcile losses before zakat and income tax to net cash flows:		
Depreciation	**66,774**	76,388
Amortization of intangible assets	**3,542**	2,978
Movement in employees' defined benefit liabilities, net	**(4,248)**	(11,618)
Financial costs	**9,821**	9,229
Gains on disposal of property, plant and equipment	**(72)**	(48)
	42,781	74,324
Working capital adjustments:		
Inventories	**29,075**	29,484
Contract assets	**(6,385)**	(72,774)
Accounts receivable	**(51,171)**	88,197
Advances to suppliers	**(733)**	(2,059)
Prepayment and other receivables	**3,869**	3,343
Accounts receivable - non current	**7,763**	15,188
Other non-current assets	**322**	322
Accounts payable	**17,376**	1,579
Accruals and other current liabilities	**(4,048)**	(20,390)
Other non-current liabilities	**(4,938)**	(8,048)
Advances from customers	**2,292**	5,911
Cash from operations	**36,203**	115,077
Financial charges paid	**(9,821)**	(6,454)
Zakat and income tax paid	**(5,979)**	(9,450)
Net cash from operating activities	**20,403**	99,173
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(6,549)**	(35,972)
Proceeds from disposal of property, plant and equipment	**2,670**	3,356
Net cash used in investing activities	**(3,879)**	(32,616)
FINANCING ACTIVITIES		
Net movement in short term loans	**49,921**	(78,955)
Net movement in term loans	**(62,850)**	45,705
Dividends paid to shareholders	**-**	(45,000)
Net cash used in financing activities	**(12,929)**	(78,250)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**3,595**	(11,693)
Cash and cash equivalents at the beginning of the period	**85,102**	64,595
Movement in foreign currency translation reserve, net	**(1,310)**	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**87,387**	52,902

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

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 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 AI-Dabbagh Group, which owns 51 % of the Company's shares. Following is the list of principal operating subsidiaries included in the Group:

	Country of incorporation	*Effective ownership percentage*	
		September 2018	*31 December 2017*
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 Housing Company PNG Limited ("RSHP")	Papua New Guinea	**100%**	100%

The Company also has equity interests in subsidiaries, registered in Qatar, Nigeria, Libya, Saudi Arabia, Singapore and Malaysia, consolidated in these interim condensed 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 did not have any commercial operations during the nine-month period ended 30 September 2018.

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 three-month and nine-month periods ended 30 September 2018 were authorised for issuance in accordance with the Board of Directors resolution on 8 November 2018 (corresponding to 30 Safar 1440 H).

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" 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 consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017. In addition, the results of the operations for the period ended 30 September 2018 do not necessarily represent an indicator for the results of the operations for the year ending 31 December 2018.

These interim condensed consolidated financial statements are prepared using historical cost convention except for the employees and other post-employment benefits, 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 Changes to the Group's accounting policies

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 2017, except for the adoption of new standards which became effective as of 1 January 2018. 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 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments and in accordance with the transitional provisions of IFRS 9 and IFRS 15, comparative figures have not been restated and the adjustments arising from the application of the new standards have been recognised in the opening balance sheet on 1 January 2018. As required by IAS 34, the nature and effect of these changes, if any, are disclosed below.

2.2.1 ***IFRS 9 Financial Instruments:***

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied the exemption for not to restate the comparative information for prior periods with respect to classification and measurement.

(a) Classification and measurement

Except for certain trade receivables, under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Company's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Company's trade and other receivables, and loans included under other non-current financial assets.

- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Company's quoted debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell.

Other financial assets are classified and subsequently measured, as follows:

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Company has irrevocably elected to so classify upon initial recognition or transition. The Company classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9.

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

2.2 **Changes to the Group's accounting policies (continued)**

2.2.1 ***IFRS 9 Financial Instruments: (continued)***

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Accordingly, the adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For contract assets and trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

2.2.2 ***IFRS 15 Revenue from Contracts with Customers***

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group elected the modified retrospective method and applied the standard retrospectively to only the most current period presented in the financial statements. The Group recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application i.e. 1 January 2018 which is allowable as per the standard. Accordingly, the information presented for the previous corresponding period has not been restated.

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognizes revenue when it transfers control over a product or services to a customer and when the specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

a) Contract revenue

Revenues from sales of buildings are recognized at a point in time i.e. when the control over goods has been transferred to the customer. Revenue for the building units is recognized when the building units are delivered, the legal title has passed and the customer has accepted the building units.

Some contracts include multiple deliverables, such as the installation of buildings. However, the installation service does not include an integration service and could be performed by another party, therefore, it is accounted for as a separate performance obligation. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin. If contracts include the installation of buildings, revenue for sales of building is recognized at a point in time when the building units are delivered, the legal title has passed and the customer has accepted the building units.

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

2.2 **Changes to the Group's accounting policies (continued)**

2.2.2 ***IFRS 15 Revenue from Contracts with Customers (continued)***

a) Contract revenue (continued)

Revenues from contracts for sales of buildings where the Group does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date are recognized over time. It is measured based on input method by the percentage of actual cost incurred to-date to estimated total cost for each contract.

Revenues from onsite construction contracts satisfy criteria for revenues over time. It is measured based on input method by the percentage of actual cost incurred to-date to estimated total cost for each contract.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known to the management.

The customer pays the fixed amount based on a payment schedule. Costs and estimated earnings in excess of billings on uncompleted contracts are included in current assets as contract assets and billings in excess of costs incurred and estimated earnings, if any, are included in current liabilities as contract liabilities.

b) Rental income

Revenue from investment properties is generally recognized in the accounting period in which the services are rendered, using straight-line basis, over the term of the lease contract. Such leases are classified as other than finance lease.

c) Sale of goods

The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition and the amount of revenue recognised.

In general the contracts for the sale of goods do not provide customers with a right of return and volume rebates. Accordingly, the application of the constraint on variable consideration did not have any impact on the revenue recognised by the Group.

The Group provides warranties for its certain products mainly in its paints and related services segment and does not provide extended warranties in its contracts with customers. As such, most warranties are assurance-type warranties under IFRS 15, which the Group accounts for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, consistent with its practice prior to the adoption of IFRS 15.

(d) Revenue from maintenance and installation services

Revenue from maintenance and installation services is recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(e) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

2.3 In addition to the above, following are the standards and amendments to standards which are effective from 1 January 2018 but they do not have a material effect on the Company's Financial Statements.

- *IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2*
- *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4*
- *Transfers of Investment Property - Amendments to IAS 40*
- *IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*
- *IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short- term exemptions for first-time adopters*
- *IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment - by -investment choice*

3 IMPACT OF ADOPTION OF NEW ACCOUNTING STANDARDS

The following table presents the adjustments recognised for each individual line item as a result of adoption of IFRS 9 and IFRS 15. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

	31 December 2017 SR '000	*Adjustment on adoption of IFRS 9 SR '000 (Note 3.1)*	*Adjustment on adoption of IFRS 15 SR '000 (Note 3.2)*	***1 January 2018 SR '000 (Restated)***
Contract assets	36,640	(551)	(5,029)	**31,060**
Inventories	165,997	-	3,548	**169,545**
Accounts receivable				
- Current	75,181	(10,140)	-	**65,041**
- Non-current	191,262	(2,378)	-	**188,884**
	469,080	(13,069)	(1,481)	**454,530**
Retained earnings	91,710	(13,069)	(1,481)	**77,160**

3.1 The difference between previous carrying amount of the provision for impairment calculated on incurred loss model and provision for impairment calculated on expected loss model under IFRS 9 has been recognized in the opening retained earnings as of 1 January 2018 and has been presented in the interim condensed consolidated statement of changes in equity.

In prior period, the management of the Group has revisited the application of ECL model at 1 January 2018 and concluded that, certain key assumptions which existed at the transition date were not properly considered and factored in the calculation. Consequently, the adjustment for adoption of IFRS 9 was restated from SR 11.4 million, which was reported as at 31 March 2018, to SR 13.0 million.

3.2 In the prior periods, the revenues from contracts for sale of buildings to customers were recognized based on percentage of completion method. As per IFRS 15, the revenues were measured by the percentage of actual cost incurred to-date to estimated total cost for each contract.

Under IFRS 15, if recognition over time criteria is not satisfied the revenues must be recognized at a point in time. To reflect this change in accounting policy, the Group has remeasured revenues by SR 5 million and cost of revenues by SR 3.5 million, resulting in a decrease in net profit of SR 1.5 million, recognized in the previous year based on percentage of completion method. This has been recognized in the opening retained earnings as of 1 January 2018, and has been presented in the interim consolidated statement of changes in equity.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Following are the standards and amendments to standards which were issued but not effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Company has not early adopted them in preparing these Interim Condensed Financial Statements:

2015-2017 cycle (issued in December 2017)

- *IFRS 3 Business Combinations - Previously held Interests in a joint operation*
- *IFRS 11 Joint Arrangements - Previously held Interests in a joint operation*
- *IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity*
- *IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation*

- *IFR 16 Leases*
- *IFRIC Interpretation 23 Uncertainty over Income Tax Treatments*
- *Prepayment Features with Negative Compensation - Amendments to IFRS 9*
- *Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28*
- *IFRS 17 Insurance Contracts*
- *IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28*

5 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 15 and IFRS 9, as described in note 2 above.

6 ACCOUNTS RECEIVABLE

In 2016, the Company filed a legal case in Houston, Texas, USA against one of the customers (for the construction of the facility based in Sunin, Angola), its subsidiaries and its directors demanding repayment of receivable balances due from such 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 lawyer of the Company, based on the preliminary assessment, had expected to have an outcome of this legal case within 24 months from the date of the filing of the legal case .On 14 November 2017, the parties attended a mediation and entered into a 'Letter of Intent' seeking to resolve the dispute with a business solution. The lawsuit is pending and the Company's lawyer, due to the risk and uncertainties of litigation and collection of judgements, has expressed no opinion as to the probability of achieving any successful collection of any award that may arise from the lawsuit.

7 SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is divided into 60 million shares (31 December 2017: same) of SR 10 each.

8 ZAKAT AND INCOME TAX

a) Zakat

The provision for the period is based on zakat base of the Company and its wholly owned Saudi subsidiaries as a whole and individual zakat base of other Saudi subsidiaries (2017: same).

During the current period ended 30 september 2018, General Authority of Zakat and Income Tax ("GAZT") had issued additional assessments for the years 2007 to 2010 amounting to SR 10.8 million. Further, during the current period, PPC (a subsidiary) received additional zakat assessment from the GAZT for the years 1999 to 2014 amounting to SR 2.7 million. 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 these 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.

8 ZAKAT AND INCOME TAX (continued)

Zakat and income tax has been computed based on the Company'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 Company could be different from zakat and tax liability as assessed by the GAZT for years for which assessments have not yet been raised by the GAZT.

9 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:

	For the three-month period ended 30 September		***For the nine-month period ended 30 September***	
	2018 (Unaudited)	*2017 (Unaudited)*	***2018 (Unaudited)***	*2017 (Unaudited)*
Net losses for the period attributable to the shareholders of the parent company (SR '000)	**(13,780)**	(12,663)	**(39,013)**	(9,534)
Weighted average number of outstanding shares during the period (share)	**60,000**	60,000	**60,000**	60,000
Basic and diluted losses per share attributable to the shareholders of the parent company	**(0.23)**	(0.21)	**(0.65)**	(0.16)

10 CONTINGENT LIABILITIES

At the reporting date, the Group had outstanding bank guarantees amounting to approximately SR 33.1 million (31 December 2017: SR 59.6 million) issued in the normal course of business.

11 CAPITAL COMMITMENTS

At the reporting date, the rental commitments under the operating lease contracts amounted to SR 12.8 million (31 December 2017: SR 15.2 million).

12 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:

Relationship and name of related party	*Nature of transactions*	***For the nine-month period ended 30 September***	
		2018 SR '000 (Unaudited)	*2017 SR '000 (Unaudited)*
Other related parties	Purchases	**119**	764
	Rental charges	**663**	663

12 RELATED PARTY TRANSACTIONS' AND BALANCES (continued)

The compensation to key management personnel during the period was as follows:

	For the nine-month period ended 30 September	
	2018	*2017*
	SR '000	*SR '000*
	(Unaudited)	*(Unaudited)*
Short term benefits	**3,432**	4,461
Employees' end-of-service benefits	**134**	185
	3,566	4,646

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.

Amounts due to a related party at 30 September 2018 amounting to SR 605 thousands (31 December 2017: SR 606 thousands) have been included in the accounts payable in interim consolidated statement of financial position.

13 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.

The following tables present revenue and profit information for the Group's operating segments for the three-month and nine-month period ended 30 September 2018 and 2017, respectively:

Business segments

	For the three-month period ended 30 September 2018				*For the three-month period ended 30 September 2017*			
	Non-concrete residential and commercial buildings	*Rentals from investment properties*	*Paints and related services*	*Total segments*	*Non-concrete residential and commercial buildings*	*Rentals from investment properties*	*Paints and related services*	*Total segments*
	Unaudited (SR'000)				*unaudited (SR'000)*			
Revenue:								
Total segment revenue	**110,773**	**66,991**	**10,953**	**188,717**	98,658	76,244	11,583	186,485
Intersegment revenue elimination	**-**	**-**	**(218)**	**(218)**	-	-	(256)	(256)
Revenue from external customers	**110,773**	**66,991**	**10,735**	**188,499**	98,658	76,244	11,327	186,229
Segment (losses)/profit	**(8,659)**	**(2,280)**	**(4,223)**	**(15,162)**	(16,800)	5,228	(1,463)	(13,035)

13 SEGMENTAL INFORMATION (continued)

	For the nine-month period ended 30 September 2018				*For the nine-month period ended 30 September 2017*			
	Non-concrete residential and commercial buildings	*Rentals from investment properties*	*Paints and related services*	*Total segments*	*Non-concrete residential and commercial buildings*	*Rentals from investment properties*	*Paints and related services*	*Total segments*
	Unaudited (SR'000)				*unaudited (SR'000)*			
Revenue:								
Total segment revenue	**304,789**	**199,279**	**34,244**	**538,312**	332,108	242,111	39,782	614,001
Intersegment revenue elimination	**-**	**-**	**(954)**	**(954)**	-	-	(1,650)	(1,650)
Revenue from external customers	**304,789**	**199,279**	**33,290**	**537,358**	332,108	242,111	38,132	612,351
Segment (losses)/profit	**(44,181)**	**11,039**	**(8,614)**	**(41,756)**	(29,210)	23,007	(3,797)	(10,000)

The following table presents assets and liabilities information for the Group's operating segments as at 30 September 2018 and 31 December 2017, respectively:

	At 30 September 2018				*At 31 December 2017*			
	Non-concrete residential and commercial buildings	*Rentals from investment properties*	*Paints and related services*	*Total segments*	*Non-concrete residential and commercial buildings*	*Rentals from investment properties*	*Paints and related services*	*Total segments*
	Unaudited (SR '000)				*Audited (SR '000)*			
Total assets	**603,156**	**562,885**	**75,606**	**1,241,647**	622,436	605,085	75,496	1,303,017
Total liabilities	**308,030**	**160,761**	**21,263**	**490,054**	257,155	219,284	17,369	493,808

During the nine-month period ended 30 September 2018, approximately 74% of the total revenues from non-concrete residential and commercial buildings segment were derived from 7 customers (2017: approximately 38% from 3 customers). During the nine -month period ended 30 September 2018, approximately 84% of the total revenues from rental segment were derived from 4 customers (2017: approximately 54% from 2 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 profit information for the Group's geographical segments for the three-month and nine-month periods ended 30 September 2018 and 2017, respectively:

	For the three-month period ended 30 September 2018							
	Saudi Arabia	*UAE*	*Ghana*	*Papua New Guinea*	*Algeria*	*Malaysia*	*Others*	*Total*
	Unaudited (SR '000)							
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**

13 SEGMENTAL INFORMATION (continued)

	For the three-month period ended 30 September 2017							
	Saudi Arabia	*UAE*	*Ghana*	*Papua New Guinea*	*Algeria*	*Malaysia*	*Others*	*Total*
	unaudited (SR '000)							
Total segment revenue	123,129	27,986	12,562	7,116	6,303	13,955	6,730	197,781
Intersegment revenue elimination	(295)	(6,408)	(4,849)	-	-	-	-	(11,552)
Revenue from external customers	122,834	21,578	7,713	7,116	6,303	13,955	6,730	186,229

	For the nine-month period ended 30 September 2018							
	Saudi Arabia	*UAE*	*Ghana*	*Papua New Guinea*	*Algeria*	*Malaysia*	*Others*	*Total*
	Unaudited (SR '000)							
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**

	For the nine-month period ended 30 September 2017							
	Saudi Arabia	*UAE*	*Ghana*	*Papua New Guinea*	*Algeria*	*Malaysia*	*Others*	*Total*
	unaudited (SR '000)							
Total segment revenue	388,717	86,047	40,223	22,423	19,930	66,501	15,587	639,428
Intersegment revenue elimination	(1,689)	(15,529)	(9,859)	-	-	-	-	(27,077)
Revenue from external customers	387,028	70,518	30,364	22,423	19,930	66,501	15,587	612,351

The following table presents assets and liabilities information for the Group's geographical segments as at 30 September 2018 and 31 December 2017, respectively:

	At 30 September 2018							
	Saudi Arabia	*UAE*	*Ghana*	*Papua New Guinea*	*Algeria*	*Malaysia*	*Others*	*Total*
	Unaudited (SR '000)							
Total assets	**760,832**	**213,217**	**142,063**	**49,597**	**34,948**	**34,125**	**6,865**	**1,241,647**
Total liabilities	**328,149**	**72,704**	**13,413**	**2,886**	**3,690**	**67,972**	**1,240**	**490,054**

13 SEGMENTAL INFORMATION (continued)

	At 31 December 2017							
	Saudi Arabia	*UAE*	*Ghana*	*Papua New Guinea*	*Algeria*	*Malaysia*	*Others*	*Total*
	Audited (SR '000)							
Total assets	845,837	150,225	140,038	53,995	45,722	45,174	22,026	1,303,017
Total liabilities	348,004	55,181	16,603	1,785	8,469	61,191	2,575	493,808

14 FAIR VALUES OF FINANCIAL INSTRUMENTS

The management assessed that the fair values of cash and cash equivalents, accounts receivable, contract assets, other current assets, advances from customers, 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.