Alkhorayef for Water and Power Technologies Company (Owned by One Person)

(A Limited Liability Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
31 DECEMBER 2018

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INDEPENDENT AUDITOR'S REPORT TO THE OWNER OF ALKHORAYEF WATER AND POWER TECHNOLOGIES COMPANY (OWNED BY ONE PERSON) (A LIMITED LIABILITY COMPANY)

Opinion

We have audited the financial statements of Alkhorayef Water and Power Technologies Company - Owned by one Person - (the "Company"), which comprise the statement of financial position as at 31 December 2018, and the statement profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and the Company's Articles of Association, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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INDEPENDENT AUDITOR'S REPORT TO THE OWNER OF ALKHORAYEF WATER AND POWER TECHNOLOGIES COMPANY (OWNED BY ONE PERSON) (A LIMITED LIABILITY COMPANY) (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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INDEPENDENT AUDITOR'S REPORT TO THE OWNER OF
ALKHORAYEF WATER AND POWER TECHNOLOGIES COMPANY (OWNED BY ONE PERSON)
(A LIMITED LIABILITY COMPANY) (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

for Ernst & Young

Saad M. Al-Khathlan
Certified Public Accountant
License No. (509)

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

Riyadh: 30 Sha'ban 1440H
(5 May 2019)

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(OWNED BY ONE PERSON)
(A Limited Liability Company)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	31 December 2018 SR	31 December 2017 SR (Note 6)	1 January 2017 SR (Note 6)
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	7	**49,155,517**	36,299,969	38,553,419
TOTAL NON-CURRENT ASSETS		**49,155,517**	36,299,969	38,553,419
CURRENT ASSETS				
Inventories	8	**9,989,199**	7,608,637	12,767,968
Trade receivables	9	**197,566,771**	137,837,918	107,516,820
Prepayments and other receivables	10	**24,419,404**	14,311,926	12,982,245
Contract asset		**75,447,439**	55,796,503	69,863,345
Cash and bank balances	11	**36,949,745**	8,605,923	3,035,828
TOTAL CURRENT ASSETS		**344,372,558**	224,160,907	206,166,206
TOTAL ASSETS		**393,528,075**	260,460,876	244,719,625
EQUITY AND LIABILITIES				
EQUITY				
Capital	12	**80,000,000**	80,000,000	80,000,000
Statutory reserve	13	**9,892,572**	4,777,800	4,777,800
Retained earnings (accumulated loss)		**33,328,494**	(6,563,277)	(30,412,675)
TOTAL EQUITY		**123,221,066**	78,214,523	54,365,125
NON-CURRENT LIABILITIES				
Obligations under capital lease contracts - non-current portion	14	**-**	769,732	2,963,930
Employee defined benefit liabilities	16	**27,742,894**	19,205,733	18,610,806
Long term loan – noncurrent portion	15	**13,333,332**	-	-
TOTAL NON-CURRENT LIABILITIES		**41,076,226**	19,975,465	21,574,736
CURRENT LIABILITIES				
Trade payables		**48,870,767**	55,830,366	60,382,586
Long term loans – current portion	15	**26,666,668**	-	-
Obligations under capital lease contracts – current portion	14	**769,732**	2,857,034	4,594,823
Due to related parties	18	**117,039,232**	62,035,034	60,525,867
Accruals and other liabilities	17	**35,884,384**	41,548,454	43,276,488
TOTAL CURRENT LIABILITIES		**229,230,783**	162,270,888	168,779,764
TOTAL LIABILITIES		**270,307,009**	182,246,353	190,354,500
TOTAL EQUITY AND LIABILITIES		**393,528,075**	260,460,876	244,719,625

The attached notes 1 to 25 form an integral part of these financial statements

STATEMENT OF POFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 *SR*	2017 *SR* *(Note 6)*
Revenues	19	**356,265,039**	249,635,666
Cost of revenues	20	**(280,334,043)**	(208,994,187)
GROSS PROFIT		**75,930,996**	40,641,479
Selling and distribution expenses	21	**(4,663,821)**	(1,761,998)
Administrative expenses	22	**(13,292,427)**	(15,460,299)
OPERATING PROFIT		**57,974,748**	23,419,182
Finance costs		**(5,530,080)**	(2,656,759)
Foreign exchange (loss) gain, net		**(1,347,453)**	574,253
Gain on sale of property and equipment		**50,504**	750,497
NET PROFIT FOR THE YEAR		**51,147,719**	22,087,173

The attached notes 1 to 25 form an integral part of these financial statements

STATEMENT OF COMPERHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018	2017 (Note 6)
NET PROFIT FOR THE YEAR		**51,147,719**	22,087,173
OTHER COMPREHENSIVE INCOME			
Other comprehensive income not to be reclassified subsequently to the statement of profit or loss in subsequent periods:			
Re-measurement (losses) gain on defined benefits liability	16	**(6,141,176)**	1,762,225
Net other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods		**(6,141,176)**	1,762,225
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**45,006,543**	23,849,398

The attached notes 1 to 25 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	capital *SR*	*Statutory reserve* *SR*	Retained earnings (accumulated loss) *SR*	*Total* *SR*
As at 1 January 2017 (Note 6)	80,000,000	4,777,800	(30,412,675)	54,365,125
Profit for the year	-	-	22,087,173	22,087,173
Other comprehensive income for the year	-	-	1,762,225	1,762,225
Total comprehensive income for the year	-	-	23,849,398	23,849,398
At 31 December 2017 (Note 6)	80,000,000	4,777,800	(6,563,277)	78,214,523
Profit for the year	-	-	51,147,719	51,147,719
Other comprehensive losses for the year	-	-	(6,141,176)	(6,141,176)
Total comprehensive income for the year	-	-	45,006,543	45,006,543
Transfer to statutory reserve	-	5,114,772	(5,114,772)	-
At 31 December 2018	**80,000,000**	**9,892,572**	**33,328,494**	**123,221,066**

The attached notes 1 to 25 form an integral part of these financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 SR	2017 SR
OPERATING ACTIVITIES		
Profit for the year	**51,147,719**	22,087,173
Adjustments to reconcile profit before zakat to net cash flows:		
Charge of the year of doubtful debts allowance	**1,869,340**	326,110
Provision for expected losses - onerous contract	**-**	2,964,921
Depreciation of property and equipment	**11,646,906**	13,178,279
gain on sale of property and equipment	**(50,504)**	(750,497)
Charge of the year of employee defined benefits	**4,374,472**	4,246,478
Finance costs	**5,530,080**	2,656,759
	74,518,013	44,709,223
Working capital adjustments:		
Accounts receivable, prepayments and others assets	**(71,705,671)**	(31,976,889)
Inventories	**(2,380,562)**	5,159,331
Accounts payable, accruals and other liabilities	**(13,323,621)**	(9,245,175)
Amounts due from/to related parties	**55,004,198**	1,509,167
Contract asset	**(19,650,936)**	14,066,842
Cash flows from operations	**22,461,421**	24,222,499
Employees' benefits paid	**(1,703,533)**	(1,889,326)
Finance cost	**(5,105,080)**	(2,656,759)
Net cash flows from operating activities	**15,652,808**	19,676,414
INVESTING ACTIVITIES		
Purchase of property and equipment	**(24,798,324)**	(11,552,681)
Proceeds from sale of property and equipment	**346,372**	1,378,349
Net cash flows used in investing activities	**(24,451,952)**	(10,174,332)
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	**40,000,000**	**-**
Payment of obligations under capital lease contracts, net	**(2,857,034)**	(3,931,987)
Net cash flows from (used in) financing activities	**37,142,966**	(3,931,987)
Net increase in cash and bank balances	**28,343,822**	5,570,095
Cash and bank balances at 1 January	**8,605,923**	3,035,828
Cash and bank balances at 31 December	**36,949,745**	8,605,923
Significant non-cash transactions:		
Reclassification from employees defined liabilities transferred to accounts payable and accruals.	**(274,953)**	(634,712)

The attached notes 1 to 24 form an integral part of these financial statements

1 CORPORATE INFORMATION

Alkhorayef for Water and Power Technologies Company Owned by one Person (the "Company") is a limited liability company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration number 1010085982 dated 22 Safar 1412H (corresponding to 1 September 1991). The registered office is located at King Abdulaziz Road – Riyadh.

The Company is engaged in contracting for buildings, roads, industrial, mechanical, marine and electrical works, cleaning of buildings and cities, operation and maintenance of medical centers, hospitals, airports, and waste disposal, and environmental pollution control.

During 2015 and 2017, the Company participated in certain projects (undertaken through an unincorporated joint venture) whereby the Company and the other venturer assumed an economic activity subject to joint control. Such unincorporated joint arrangements, whereby the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, are classified as joint operations. In the accompanying financial statements, the Company reports its assets, including its share of any assets held jointly, its liabilities, including its share of any liabilities incurred jointly, its revenue including its share of the revenue from the sale of the output by the joint operation and its expenses, including its share of any expenses incurred jointly.

2 BASIS OF PRPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRSs as endorsed in KSA"). For all periods up to and including the year ended 31 December 2017, the Company prepared its financial statements in accordance with accounting standards generally accepted in KSA. These financial statements for the year ended 31 December 2018 are the first annual financial statements of the Company, prepared in accordance with IFRSs as endorsed in KSA.

Accordingly, IFRS 1, "First-time Adoption of International Financial Reporting Standards", as endorsed in KSA has been applied. Refer to note 6 for information on the first-time adoption of IFRSs as endorsed in KSA by the Company. These financial statements have been prepared solely for the internal use of the Company's management, in accordance with the accounting policies set out in note 3, and are not intended for filing with any regulatory or government agencies, or for any other purpose.

2.1 Basis of Measurement

These financial statements have been prepared under the historical cost convention, except defined benefit obligation which is recognised at the present value of future obligations under the Projected Unit Credit method (PUC).

These financial statements are presented in Saudi Riyals, which is also the Company's functional currency and presentation currency.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Company in preparing its financial statement.

3.1 Current versus non-current classification

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

- Expected to be realised or intended to be sold or consumed in the normal operating cycle.
- Held primarily for the purpose of trading.
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading.
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

3.2 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

3.3 Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in statement of profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

• Buildings	20 years
• Heavy Machines	7 years
• Furniture and fixtures	7 years
• Motor Vehicles	5 years

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Inventories

Inventories are measured at the lower of cost and net realisable value with due allowance for any obsolete or slow moving items. Cost is determined using the weighted average method.

Cost includes expenditure incurred in acquiring the inventories and costs incurred in bringing them to their existing location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred on disposal. Cost of finished goods and goods for resale is determined based on the purchase cost on a weighted average basis.

3.5 Trade Receivables

Accounts receivable are amounts due from customers in the ordinary course of business. Accounts receivable are recorded at their transaction price on initial recognition. Subsequent on each reporting date, accounts receivable are shown net of allowance for doubtful debt. The Company applies the simplified approach to provide expected credit losses, which requires the use of the lifetime expected loss provision for all accounts receivables

3.6 Contract Asset

Contract asset represents revenue earned and recognised for services provided but not billed to the customer at the year end.

3.7 Trade Payable

Trade Payable represent liabilities for goods and services provided to the Company prior to the end of financial period which are unpaid. The amounts are unsecured. Trade payables and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

3.8 Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset, even if that asset is not explicitly specified in an arrangement.

Company as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease. Finance leases are 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 are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Leases (contained)

Company as a lessor
Leases in which the Company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3.9 Revenue recognition

IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers.

IFRS 15 establishes a new five-step, model that will apply to revenue arising from contracts with customers as below:

Revenue from contracts with customers

Step 1: Identify the contract(s) with a customer:

Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

Step 2: Identify the performance obligations in the contract:

A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3: Determine the transaction price

The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Step 4: Allocate the transaction price to the performance obligations in the contract:

For a contract that has more than one performance obligation, the Company will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The Company satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

a) The Company’s performance does not create an asset with an alternate use to the Company and the Company has an enforceable right to payment for performance completed to date.
b) The Company’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
c) The customer simultaneously receives and consumes the benefits provided by the Company’s performance as the Company performs.

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied.

When the Company satisfies a performance obligation by delivering the promised services it creates a contract based asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised this gives rise to a contract liability.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Revenue recognition (continued)

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent.

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably.

Specific recognition criteria

Measuring progress towards complete satisfaction of a performance obligation
For each performance obligation that is satisfied over time, the Company applies a single method of measuring progress toward complete satisfaction of the obligation. The Company selects an appropriate output or input method and then consistently applies it to similar performance obligations and in similar circumstances.

Variable considerations
If the consideration promised in a contract includes a variable amount, the Company estimates the amount of consideration to which the Company is entitled in exchange for transferring the promised goods or services to a customer. The Company estimates the transaction price on contracts with variable consideration using the expected value or most likely amount method. The method is applied consistently throughout the contract and to similar types of contracts.

Contract costs
Any incremental cost of obtaining a contract is recognised as an expense unless the Company has a reasonable expectation to recover these costs from its customers and in cases where these costs are explicitly chargeable to the customers.

Rendering of services
Revenue from providing services is recognised over a period of time as the related services are performed. For fixed-price contracts, revenue is recognised based on the ‘percentage of completion’ method which measures actual service provided to the end of the reporting period as a proportion of the total services to be provided. Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

3.10 Contract cost and expenses

Cost of revenue
Any incremental cost of obtaining a contract is recognised as an expense unless the Company has a reasonable expectation to recover these costs from its customers and in cases where these costs are explicitly chargeable to the customers.

Selling, marketing and administrative expenses
Selling, marketing expenses are cost arising from the Company’s efforts marketing and function. All other expenses are classified as administrative expenses. Allocation of common expenses between cost of revenue, selling and marketing and administrative expenses, where required, is made on a reasonable basis with regards to the nature and circumstances of the common expenses.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of finance cost and other costs that an entity incurs in connection with the borrowing of funds.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company 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. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Financial Statement Line	***IFRS 9 Classification***
Trade and other receivables	*Amortised cost*
Cash and bank balances	*Amortised cost*
Loans and borrowings	*Amortised cost*
Accrued expenses and other payables	*Other financial liabilities*

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost (debt instruments).
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments).
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).
- Financial assets at fair value through profit or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments (continued)

i) Financial assets (continued)

Financial assets at amortized cost (debt instruments)
This category is the most relevant to the Company. The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in the statement of profit or loss when the asset is derecognized, modified or impaired.

Financial assets at fair value through OCI (debt instruments)
The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to the statement of profit or loss.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

Effective interest method
The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period to net the carrying amount on initial recognition.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments (continued)

i) Financial assets (continued)

Derecognition
A financial asset is derecognised when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either the Company has transferred substantially all the risks and rewards of the asset or the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

Impairment
The Company assesses, at each reporting date, whether there is any objective evidence that a financial asset or a company of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset has an impact on the estimated future cash flows of the financial asset or the Company of financial assets that can be reliably estimated.

For trade receivables only, the Company recognizes expected credit losses for trade receivables based on the simplified approach under IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in profit or principal payments. The probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Trade receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the condensed statement of profit or loss and other comprehensive income. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write off is later recovered, the recovery is credited to finance costs in the statement of profit or loss and other comprehensive income.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments (continued)

ii) Financial liabilities

Initial recognition
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include accrued expenses and other payables and loans and borrowings.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognized in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Offsetting of financial instruments
Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognized amounts and an intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments (continued)

ii) Financial liabilities (continued)

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as finance cost.

3.12 Zakat
Zakat is calculated and provided for by Abdullah Ibrahim Alkhorayef Sons Company (the "Ultimate Parent Company") on a consolidated basis including its effectively wholly owned subsidiaries in accordance with Saudi Arabian fiscal regulations. This provision is reflected in the Parent Company's consolidated financial statements. The Company's share of this provision is charged to its statement of profit or loss based on allocation by the Parent Company.

3.13 Foreign currencies transactions
The Company's financial statements are presented in Saudi Riyals (SR), which is also the Company's functional currency and all values are rounded to the nearest SR except when otherwise indicated.

3.14 Transactions and balances
Transactions in foreign currencies are initially recorded by the Company at the functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in the statement of profit or loss.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

4.1 Use of estimates and judgements

The preparation of financial statements in conformity with approved accounting standards required management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions and judgments are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

4.2 Estimation uncertainty and assumptions

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

4.3 Revenue recognition

The application of IFRS 15 has required management to make the following judgements:

Satisfaction of performance obligations

The Company is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognising revenue. The Company has assessed that based on the agreements entered into with the customers, the Company does not create an asset with an alternative use to the Company and usually has an enforceable right to payment for performance completed to date. In these circumstances the Company recognises revenue over time. Where this is not the case revenue is recognised at a point in time.

4.4 Useful lives and residual values of property and equipment and intangible assets

An estimate of the useful lives and residual values of property and equipment and intangible assets is made for the purposes of calculating depreciation and amortization respectively. These estimates are made based on expected usage for useful lives. Residual value is determined based on experience and observable data where available.

4.5 Employees' defined benefit liabilities

The cost of the defined benefit plan and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and employee turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

4.6 Provision for expected credit losses (ECLs) of trade receivables

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision matrix is initially based on the Company historical observed default rates. The company calibrate the matrix to to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic condition may also may not be representative of customers actual default in future. The information about the ECLs on the Company trade receivables is disclose in note 24.5.

4.7 Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets (CGU). When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less cost of disposal, recent market transactions are taken into account. If such transactions cannot be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment loss are recognized in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited to that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

4.8 Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

5.1 IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including 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.

Determining whether an arrangement contains a lease
On transition to IFRS 16, the Company can choose whether to:

- Apply the IFRS 16 definition of a lease to all its contracts; or
- Apply a practical expedient and not reassess whether a contract is, or contains, a lease.

Transition
As a lessee, the Company can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Company currently plans to apply IFRS 16 initially on 1 January 2019. The Company has not yet determined which transition approach to apply. As a lessor, the Company is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. As of this year end, the Company is in the process of completing its evaluation of impact of IFRS 16 on its accounting policy.

5.2 Amendments to IFR 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income provided that contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding '(the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendment should be applied retrospectively and are effective from 1 January 2019.

5.3 Amendments to IAS 19: Plan Amendment, Curtailment or Settlements

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify required to:

- Determine current service cost for remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity fist determines any past service cost, or gain or loss on settlement, without considering the effect of asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment. Any changes in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income. The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after I January 2019.

6 FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

These financial statements, for the year ended 31 December 2018, are the first the Company has prepared in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA. For the years up to and including the year ended 31 December 2017, the Company prepared its financial statements in accordance with the accounting principles generally accepted in the Kingdom of Saudi Arabia.

Accordingly, the Company has prepared financial statements that comply with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA that are applicable as at 31 December 2018, together with the comparative period data for the year ended 31 December 2017, as described in the summary of significant accounting policies. In preparing the financial statements, the Company's opening statement of financial position was prepared as at 1 January 2017, the Company's date of transition to IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA.

This note explains the principal adjustments made by the Company in restating its financial statements prepared in accordance with the accounting principles generally accepted in the Kingdom of Saudi Arabia ("SOCPA GAAP"), including the statement of financial position as at 1 January 2017 and the financial statements for the year ended 31 December 2017.

6.1 Exemptions Applied

IFRS 1 allows first-time adopters certain mandatory and optional exemptions from the retrospective application of certain requirements under IFRS.

The Company has applied the following exemptions:

(A) Accounting estimates

Estimates at 1 January 2017 and 31 December 2017 are consistent with those made for the same dates in accordance with SOCPA GAAP (after adjustments to reflect any differences in accounting policies) apart from Employees' terminal benefits liabilities where application of SOCPA GAAP did not require estimation. Estimates used by the Company to present these amounts in accordance with IFRS reflect conditions at 1 January 2017, the date of transition to IFRS and as at 31 December 2017.

In preparing its opening statement of financial position as at 1 January 2017 in accordance with IFRS as endorsed in KSA and the financial statements for the year ended 31 December 2017, the Company has analyzed the impact and noted the following adjustments are required to the amounts reported previously in the statement of financial position as at 1 January 2017 and as at 31 December 2017 and statement of comprehensive income for the year ended 31 December 2017 that were prepared in accordance with SOCPA GAAP.

6.2 Reconciliation of retained earnings as at 1 January 2017 and 31 December 2017 is as follows:

	Note	31 December 2017 SAR	1 January 2017 SAR
Total equity under SOCPA standards		79,797,904	56,067,419
Recognition of loss allowance on trade receivables	6.4A	(829,627)	(503,517)
Restatement of employees' defined benefits liabilities	6.4B	(753,754)	(1,198,777)
Total equity under IFRS as endorsed in KSA		78,214,523	54,365,125

6 FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (contained)

6.3 Reconciliation of the statement of profit or loss for the year ended 31 December 2017 is as follows:

	Note	31 Decemebr 2017 SR
Net profit for the year under SOCPA standards		23,730,485
Additional allowance on trade receivables	6.4A	(326,110)
Restatement of employees' defined benefits liabilities	6.5B	(1,317,202)
Profit reported under IFRS as endorsed in KSA		22,087,173
Other comprehensive income		1,762,225
Total comprehensive income for the year under IFRS as endorsed in KSA		23,849,398

6.4 NOTES ON KEY IMPACTS ON THE FINANCIAL STATEMENTS ON TRANSITION TO IFRS

A Loss allowance on trade receivables

Under SOCPA Standards, the Company was recognizing provision for doubtful debts (loss allowance) on its outstanding trade receivables based on loss incurred approach. Under IFRS, the Company is required to follow the expected credit loss model. At the date of transition, the Company used its historical credit loss experience and recognized a further loss allowance representing life time expected credit loss on trade receivables. The adjustment of additional provision was charged against the retained earnings.

B Defined benefit obligation

Under SOCPA Standards, the Company recognized costs related to employees' end of service benefits (gratuity) on accrual basis. Under IFRS, gratuity liabilities are recognized on an actuarial basis. At the date of transition, the gratuity liability has been recognized in full against the retained earnings based on actuarial valuation.

7 PROPERTY AND EQUIPMENT

The estimated useful lives of assets for the calculation of depreciation are as follows:

Buildings	20 years	Furniture and fixtures	7 years
Heavy Machines	7 years	Motor Vehicles	5 years

	Buildings SR	*Heavy machines* SR	*Furniture and fixtures* SR	*Motor vehicles* SR	***Total*** SR
Cost					
At 1 January 2017	2,702,097	95,909,603	11,470,403	47,299,773	157,381,876
Additions	114,800	4,122,936	1,271,545	6,043,400	11,552,681
Disposals	(9,000)	(3,476,686)	(809,776)	(3,404,836)	(7,700,298)
At 31 December 2017	2,807,897	96,555,853	11,932,172	49,938,337	161,234,259
Additions	6,900	11,664,976	1,079,734	12,046,714	24,798,324
Disposals	(115,958)	(2,376,378)	(773,781)	(2,076,718)	(5,342,835)
At 31 December 2018	2,698,839	105,844,451	12,238,125	59,908,333	180,689,748
Depreciation					
At 1 January 2017	1,524,451	75,457,224	7,073,296	34,773,486	118,828,457
Depreciation charge for	175,373	7,012,330	1,083,757	4,906,819	13,178,279
Disposals	(9,000)	(3,242,652)	(664,368)	(3,156,426)	(7,072,446)
At 31 December 2017	1,690,824	79,226,902	7,492,685	36,523,879	124,934,290
Depreciation charge for	152,663	4,853,034	1,012,217	5,628,994	11,646,908
Disposals	(115,958)	(2,312,353)	(687,705)	(1,930,951)	(5,046,967)
At 31 December 2018	1,727,529	81,767,583	7,817,197	40,221,922	131,534,231
Net book value					
At 31 December 2018	**971,310**	**24,076,868**	**4,420,928**	**19,686,411**	**49,155,517**
At 31 December 2017	1,117,073	17,328,951	4,439,487	13,414,458	36,299,969
At 1 January 2017	1,177,646	20,452,379	4,397,107	12,526,287	38,553,419

8 INVENTORIES

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Finished goods	**13,014,379**	10,633,817	12,329,438
Work in process	-	-	3,463,710
Less: Provision for slow moving inventories	**(3,025,180)**	(3,025,180)	(3,025,180)
	9,989,199	7,608,637	12,767,968

9 TRADE RECEIVABLES

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Trade receivables	**202,093,072**	140,494,879	109,847,671
Less: provision for impairment of receivables	**(4,526,301)**	(2,656,961)	(2,330,851)
	197,566,771	137,837,918	107,516,820

Movement of provisions for impairment of account receivables:

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Opening balance	**2,656,961**	2,330,851	24,755,978
Charge for the year	**1,869,340**	326,110	503,517
Less: write-offs	-	-	(11,850,567)
Less: reversals	-	-	(11,078,077)
	4,526,301	2,656,961	2,330,851

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. The receivables include amounts totaling SR 199 million which is due from Government and quasi-Government institutions (31 December 2017: SR 139 million, 1 January 2017: SR 101 million).

9 TRADE RECEIVABLES (continued)

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. As at 31 December, the ageing analysis of trade receivables and loss allowance provision is as follows.

	As at 31 December 2018 SR	*As at 31 December 2017 SR*	*As at 1 January 2017 SR*
Not Due	**130,676,963**	93,505,498	70,800,304
0-90 days past due	**17,725,764**	10,927,005	14,525,461
91-180 days past due	**15,510,120**	13,975,854	10,868,262
181-270 days past due	**10,479,592**	8,646,785	5,213,344
271-360 days past due	**12,472,164**	9,197,655	6,028,765
361-450 days past due	**2,565,518**	432,729	7,692
451-540 days past due	**4,230,647**	435,741	72,992
541-630 days past due	**3,307,293**	716,651	-
631-720 days past due	**60,767**	-	-
More than 721 days past due	**537,943**	-	-
	197,566,771	137,837,918	107,516,820

Please refer to (note 24.5) on credit risk of trade receivables, which explain how the Company manages and measure credit quality of trade receivables that are neither past due nor impaired.

10 PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Prepaid expenses	**9,693,885**	2,193,760	2,328,207
Retention Receivables	**8,119,646**	7,380,379	6,818,425
Advances to suppliers	**3,697,401**	4,534,569	3,658,421
Amounts due from related parties (note 18)	**-**	7,900	-
Other Receivables	**2,908,472**	195,318	177,192
	24,419,404	14,311,926	12,982,245

11 CASH AND BANK BALANCES

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Bank balances	**36,948,392**	8,605,923	2,971,600
Cash in hand	**1,353**	-	64,228
	36,949,745	8,605,923	3,035,828

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12 CAPITAL

On 14 Rabi' al-Thani 1439H (corresponding to 1 January 2018) Abdullah Ibrahim Alkhorayef sons Company (AIA) decided to transfer its share totalling 80,000 share amounting to SR 80,000,000 representing 100% ownership to Alkhorayef Group Company ("AGC" or the "Parent").

Capital is divided into 80,000 share (31 December 2017: 80,000 shares, 1 January 2017: 80,000 shares) of SR 1,000 each. Capital is distributed to the partners as follows:

	Number of Shares					
	31 December 2018	*31 December 2017*	*1 January 2017*	***31 December 2018***	*31 December 2017*	*1 January 2017*
				SR	*SR*	*SR*
Alkhorayef Group Company (the "Parent Company)	**80,000**	-	-	**80,000,000**	-	-
Abdullah Ibrahim Alkhorayef Sons Company (the "Ultimate Parent Company")	**-**	80,000	79,200	**-**	80,000,000	79,200,000
Alkorayef International Company	**-**	-	800	**-**	-	800,000
	80,000	**80,000**	**80,000**	**80,000,000**	**80,000,000**	**80,000,000**

13 STATUTORY RESERVE

In accordance with Saudi Arabian Regulations for Companies and the Company's articles of association, the Company transfers 10% of its net profit for the year to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of its capital.

14 OBLIGATIONS UNDER CAPITAL LEASES CONTRACTS

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Minimum annual rentals under capital lease contracts due in:			
- 2017	-	-	5,205,382
- 2018	-	3,307,597	2,956,706
- 2019	**863,482**	863,482	509,611
Minimum lease payments under capital leases contracts	**863,482**	4,171,079	8,671,699
Less: estimated amounts representing future financial charges	**(93,750)**	(544,313)	(1,112,946)
Present value of minimum lease rental payments	**769,732**	3,626,766	7,558,753
Less: current portion	**(769,732)**	(2,857,034)	(4,594,823)
	-	769,732	2,963,930

15 LOANS AND BORROWINGS

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Current loans and borrowings			
Long term loans non-current portion	**13,333,332**	-	-
Long term loans current portion	**26,666,668**	-	-
Total loans	**40,000,000**	-	-

16 EMPLOYEE DEFINED BENEFIT LIABILITIES

16.1 General description

General description of the type of employees' defined benefits liabilities plan and accounting policy for recognising actuarial gains and losses is disclosed in note 2.2.15 to the financial statements.

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Net benefit expense			
Included in profit or loss			
Current service cost	**3,695,374**	3,522,166	3,759,982
Interest cost	**679,097**	724,312	740,377
	4,374,471	4,246,478	4,500,359
Included in other comprehensive income			
Remeasurement losses / (gains):			
Actuarial loss / (gains) due to:			
- financial assumptions	**(1,703,533)**	(1,889,326)	(1,889,171)
	(1,703,533)	(1,889,326)	(1,889,171)
Net benefit expense	**2,670,938**	2,357,152	2,611,188

16 EMPLOYEE DEFINED BENEFIT LIABILITIES (continued)

16.2 Changes in the present value of the defined benefit obligation:

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Opening balance - present value of defined benefit obligation	**19,205,733**	18,610,806	19,453,999
Interest cost	**679,097**	724,312	740,377
Current service cost	**3,695,374**	3,522,166	3,759,982
Benefits paid	**(1,703,533)**	(1,889,326)	(1,889,171)
Remeasurement losses / (gains) in OCI	**6,141,176**	(1,762,225)	(3,454,381)
Amounts transferred to accrual as current liabilities	**(274,953)**	-	-
Closing balance - present value of defined obligation	**27,742,894**	19,205,733	18,610,806

16.3 Key assumptions and quantitative sensitivity analyses

The principal assumptions used in determining end of service benefit obligations for the Company's plan are shown below:

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Discount rate	**4.3%**	3.7%	4.1%
Saudi employees short term salary increase rate for 1 year	**2.0%**	2.0%	2.00%
Non-Saudi employees short term salary increase rate for 1 year	**2.0%**	2.0%	2.00%
Saudi employees long term salary increase rate for 1 year	**4.0%**	2.0%	2.00%
Non-Saudi employees long term salary increase rate for 1 year	**4.0%**	2.0%	2.00%

16 EMPLOYEE DEFINED BENEFIT LIABILITIES (continued)

16.4 Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Discount rate			
1 % increase	**25,668,799**	17,682,309	17,258,976
1% decrease	**30,796,235**	20,980,018	20,182,166
Salary increase rate			
1 % increase	**30,910,386**	20,958,545	20,016,091
1% decrease	**25,506,549**	17,678,978	17,379,195
Withdrawal rates			
10 % increase	**27,891,786**	19,269,509	18,702,014
10 % decrease	**28,150,344**	19,129,207	18,504,299
1 year mortality age set back	**28,021,340**	19,199,064	18,602,996
1 year mortality age set forward	**28,014,368**	19,212,344	18,618,551

16.5 Sensitivity analysis

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. It is based on a change in a significant assumption, keeping all other assumptions constant and may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

17 ACCRUED AND OTHER LIABILITIES

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Accrued expenses	**14,634,010**	11,930,166	10,785,502
Advance from a customers	**13,070,579**	19,246,185	27,500,089
Provision for onerous contracts	**2,188,731**	2,964,921	-
Provision for penalty	**3,155,293**	5,982,231	3,732,688
Zakat payable (note 23)	**148,576**	173,172	249,014
Other liabilities	**2,687,195**	1,251,779	1,009,195
	35,884,384	41,548,454	43,276,488

18 RELATED PARTY TRANSACTIONS AND BALANCES

Name of company	*Related party*	*Nature of transaction*	*Amount of transactions* *2018* SR	*2017* SR
Alkhorayef Group company	Partner	Financing	**149,339,000**	-
Alkhorayef Commercial Company	Affiliates	Purchases	**3,791,428**	2,386,844
		Sales	**205,216**	-
Abdullah Ibrahim Alkhorayef Sons Company	Ultimate Parent	Land rental	**150,000**	403,725
Alkhorayef Company for Printing Solutions	Affiliates	Purchases	**247,793**	970,724
Alkhorayef Petroleum Company	Affiliates	Shared service cost (note 22)	**480,600**	480,600
		Purchases	**757,715**	
		Lease of land	**70,000**	70,000
		Sales	**605,000**	-

Funds in excess of the Company's requirements are placed with the Parent Company which also provides funds for day to day operations of the Company.

Amount due to the Parent Company, as shown in the table below, carries interest based on the average bank prevailing rates and are repayable by the Company upon demand from the Parent Company while amounts due to other related parties are interest free and payable upon demand from the lenders.

The breakdown of amounts due from related parties are as follows:

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Alkhorayef Commercial Company	-	**7,900**	-
	-	**7,900**	-

The breakdown of amounts due to related parties are as follows:

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Alkhorayef Group Company (Parent Company)	**116,914,217**	-	-
Alkhorayef Company for Printing Solutions	**112,515**	**215,505**	54,046
Abdullah Ibrahim Alkhorayef Sons Company, (Ultimate Parent Company)	**12,500**	**61,735,509**	59,780,846
Alkhorayef Petroleum Company	-	**84,020**	478,725
Alkhorayef Commercial Company	-	-	212,250
	117,039,232	**62,035,034**	60,525,867

19 REVENUE

	2018 SR	2017 SR
Operations and maintenance	**250,398,861**	196,802,707
Contracting	**105,866,178**	52,832,959
	356,265,039	249,635,666

20 COST OF REVENUE

	2018 SR	2017 SR
Salaries and wages	**116,527,477**	**82,828,239**
Materials consumed	**81,704,057**	**51,532,525**
Repair and maintenance	**37,234,812**	**28,048,496**
Depreciation (note 7)	**11,171,983**	**12,692,773**
Penalties	**4,428,868**	**6,660,563**
Provision for foreseeable contracts losses	**-**	**2,964,921**
Others	**29,266,846**	**24,266,670**
	280,334,043	**208,994,187**

21 SELLING AND DISTRIBUTION EXPENSES

	2018 SR	2017 SR
Charge of doubtful debts	**1,869,340**	326,110
Tender fees	**1,803,941**	935,500
Business development expense	**791,751**	193,535
Sales commission	**114,489**	212,991
Advertisement expense	**84,300**	93,862
	4,663,821	1,761,998

22 ADMINISTRATIVE EXPENSES

	2018 SR	2017 SR
Salaries and related costs	**8,664,849**	10,877,296
Professional fees	**820,944**	983,924
Postage, telephone and telex expense	**678,606**	407,029
Bank charges	**633,740**	536,450
Rent expense	**571,825**	740,423
Shared service costs (note 18)	**480,600**	480,600
Depreciation (note 7)	**474,925**	485,506
Subscription fees	**230,273**	164,977
Repair and maintenance expense	**167,932**	218,694
Utilities expense	**103,519**	69,722
Insurance expense	**52,368**	59,220
Other	**412,846**	436,458
	13,292,427	15,460,299

23 ZAKAT PAYABLE

During the year ended 31 December 2018, the Company's share in the zakat charge was SR nil (31 December 2017: SR nil, 1 January 2017: nil).

The movement in the zakat provision for the year was as follows:

	31 December 2018 SR	31 December 2017 SR	31 December 2016 SR
At the beginning of the year	**173,172**	249,014	257,774
Payments during the year	**(24,596)**	(75,842)	(8,760)
At the end of the year	**148,576**	173,172	249,014

24 FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Company principal liabilities comprise borrowing, trade and other payables. The main purpose of these financial liabilities is to finance the Company operations and to provide guarantees to support its operations. The Company principal financial assets include trade and other receivables and cash and cash in bank.

The Company's activities expose it to a variety of financial risks: market risk (including interest risk, currency risk an price risk), credit risk and liquidity risk. The Company overall risk management program focuses on robust liquidity management as well as monitoring of various relevant market variables, thereby consistently seeking to minimize potential adverse effects on the Company financial performance.

24.1 Market rate risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk comprise three types risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include borrowings.

24.2 Interest rate risk

Interest risk is exposure to various risks associated with the effect of fluctuation in the prevailing interest rates on the Company's financial position and cash flows. The Company manages the interest rate risk by regularly monitoring the interest rate profiles of its interest bearing financial instruments.

24.3 Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchanges rates. The Company's transactions are principally in Saudi Riyals.

24.4 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from special commission rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instruments or it's issuer, or factors affecting all similar financial instruments traded in the market. The Company does not have any financial instruments which are subject to other price risk.

24 FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

24.5 Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments.

To reduce exposure to credit risk, the Company has an approval process whereby credit limits are applied to its customers. The management also continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery which is based on customer profile and payments history. Outstanding customer receivables are regularly monitored .

Expected credit loss "ECL" assessment for customer
The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of loss. Exposures within each credit risk grade are segmented by geographic region classification and an ECL rate is calculated for each segment based on delinquency status and actual credit loss experience over the past two years.

The Company held cash and cash in bank of SAR 17.6 million at 31 December 2018. The Company considers that its cash and cash in bank have low credit risk.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Trade receivables	**197,566,771**	137,837,918	107,516,820
Prepayments and other receivables	**23,735,298**	14,311,926	12,982,245
	221,302,069	152,149,844	120,499,065

The following table provides information about the exposure to credit risk and ECLs for account receivables from individual customers:

Follows is Expected credit loss assessment

31 December 2018	**Gross carrying amount**	**Loss allowance**
Not Due	**131,589,404**	**912,441**
0-90 days past due	**17,725,764**	**-**
91-180 days past due	**15,541,276**	**31,156**
181-270 days past due	**10,679,287**	**199,695**
271-360 days past due	**12,757,747**	**285,583**
361-450 days past due	**2,879,017**	**313,499**
451-540 days past due	**4,788,852**	**558,205**
541-630 days past due	**4,048,010**	**740,717**
631-720 days past due	**285,226**	**224,459**
More than 721 days past due	**1,798,489**	**1,260,546**
	202,093,072	**4,526,301**

24 FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

24.5 Credit Risk (continued)

31 December 2017	**Gross carrying amount**	**Loss allowance**
Not Due	93,700,981	195,483
0-90 days past due	10,969,365	42,360
91-180 days past due	14,070,635	94,781
181-270 days past due	8,751,513	104,728
271-360 days past due	9,440,263	242,608
361-450 days past due	457,928	25,199
451-540 days past due	508,815	73,073
541-630 days past due	716,650	-
631-720 days past due	31,156	31,156
More than 721 days past due	1,847,573	1,847,573
	140,494,879	2,656,961

1 January 2017	**Gross carrying amount**	**Loss allowance**
Not Due	70,886,513	86,209
0-90 days past due	14,562,573	37,112
91-180 days past due	10,920,232	51,970
181-270 days past due	5,246,677	33,333
271-360 days past due	6,152,049	123,284
361-450 days past due	8,114	422
451-540 days past due	80,240	7,248
541-630 days past due	-	-
631-720 days past due	223,940	223,940
More than 721 days past due	1,767,333	1,767,333
	109,847,671	2,330,851

24 FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

24.6 Capital Management

For the purpose of the Company's capital management, capital includes issued capital, and all other equity reserves attributable to the equity of the parent.

The primary objective of the Company's capital management is to maximise the equity value. The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may adjust the dividend payment to equity, return capital to equity or issue new shares.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt.

The Company includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and short-term deposits, excluding discontinued operations.

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Long term loans	**40,000,000**	-	-
Trade and other payables	**84,755,151**	97,378,820	103,659,074
Less: cash and cash in bank	**(36,949,745)**	(8,605,923)	(3,035,828)
Net debt	**87,805,406**	88,772,897	100,623,246
Equity	**123,221,066**	78,214,523	54,365,125
Capital and net debt	**211,026,472**	166,987,420	154,988,371
Gearing ratio (%)	**42%**	53%	65%

24.7 Liquidity risk

Liquidity risk is the risk that enterprise will encounter difficulty in rising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

31 December 2018	*Less than 1 year SR*	*More than 1 - 5 years SR*	*More than 5 years SR*	***Total***
Trade payables	**48,870,767**	-	-	**48,870,767**
Term loans	**27,625,001**	**13,562,499**	-	**41,187,500**
Capital lease contracts	**769,732**	-	-	**769,732**
	77,265,500	**13,562,499**	-	**90,827,999**

31 December 2017	*Less than 1 year SR*	*More than 1 - 5 years SR*	*More than 5 years SR*	***Total***
Trade payables	55,830,366	-	-	55,830,366
Term Loans	-	-	-	-
Capital lease contracts	2,963,930	769,732		3,733,662
	58,794,296	769,732	-	59,564,028

23 FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

24.7 Liquidity risk (continued)

1 January 2017	*Less than 1 year* *SR*	*More than 1 - 5 years* *SR*	*More than 5 years* *SR*	***Total***
Trade payables	163,935,927	-	-	163,935,927
Term Loans	-	-	-	-
Capital lease contracts	4,594,823	2,963,930	-	7,558,753
	168,530,750	2,963,930	-	171,494,680

25 Contingencies

The Company's contingencies as of reporting date are as follows:

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Letters of guarantee	**178,471,108**	145,027,394	146,226,748
Letters of credit	**7,330,650**	18,393,154	17,680,426
	185,801,758	163,420,548	163,907,174