

**RED SEA INTERNATIONAL COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2018**

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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**INDEPENDENT AUDITOR'S REPORT  
TO SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

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**Report on the Audit of the Consolidated Financial Statements**

**Opinion**

We have audited the consolidated financial statements of Red Sea International Company (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated 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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated 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.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT  
TO SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY  
(A SAUDI JOINT STOCK COMPANY) (continued)

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Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><b>RECOGNITION OF EXPECTED CREDIT LOSSES UNDER IFRS 9 AND IMPAIRMENT OF DISPUTED TRADE RECEIVABLES</b></p> <p>At 31 December 2018, the Group has gross outstanding receivables of SR 378 million (2017: SR 347 million) related to trade receivables and contract assets. Out of which an outstanding receivable of SR 88.7 million relates to one of the customer (third party) in Angola.</p> <p>At 31 December 2018, a provision for expected credit losses amounting to SR 80 million (2017: SR 44 million) is maintained out of which an amount of SR 55.5 million (2017: SR 28.8 million) pertains to the above customer.</p> <p>Assessment of expected credit losses ("ECL") is considered to be a key audit matter for us due to the significant judgement required in determining the provision for expected credit losses and in the preparation of ECL model.</p> <p>Refer to the note 4, 5, 18 and 19 of the consolidated financial statement for the accounting policy and other related information.</p>	<p>We performed the following procedures to address the key audit matter:</p> <ul style="list-style-type: none"> <li>- We obtained and tested the expected credit loss (ECL) model prepared by the management;</li> <li>- We assessed the judgments used by the management to develop loss rates and final ECL provision using the loss rates;</li> <li>- We also verified the data inputs used in assessing the loss rates;</li> <li>- We evaluated forward-looking information that reflects the impact of future events on expected credit losses;</li> <li>- We also involved our internal specialists to assist us in our assessment of the appropriateness of the model and reasonableness of key assumptions used by comparing to generally accepted industry practices and accepted methodology;</li> <li>- With respect to a third-party customer with SR 88.7 million outstanding receivable, we held discussions with the internal legal counsel and external lawyer for the expected outcome of the legal proceedings and their effect on provision for expected credit losses;</li> </ul>



INDEPENDENT AUDITOR'S REPORT  
TO SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY  
(A SAUDI JOINT STOCK COMPANY) (continued)

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Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
	<ul style="list-style-type: none"> <li>- We assessed the adequacy of disclosures presented in the consolidated financial statements.</li> </ul>
<p><b>IMPAIRMENT OF NON-FINANCIAL ASSETS</b></p> <p>The Group has significant investment in non-financial assets that are associated with its operations and business units around the world.</p> <p>Based on impairment indicators analysis and subsequent recoverable amount estimate, the Group recorded an impairment loss of SR 11.8 million.</p> <p>This assessment required management to use significant judgment over the assumptions and estimations used in performing the forecast. The key assumptions and estimations used in performing the forecast are the annual growth rate of the business, forecasted gross margins and weighted average cost of capital used to discount the future cash flow to its present value. As such, due to aforesaid facts, we determined that this is a key audit matter.</p> <p>Refer to the note 4, 14 ,15 and 16 of the consolidated financial statement for the accounting policy and other related information.</p>	<p>We performed the following procedures to address the key audit matter:</p> <ul style="list-style-type: none"> <li>- We obtained management's impairment calculations and key assumptions including revenue forecasts, basis of selection of growth rates and discount rates.</li> <li>- We assessed the appropriateness of the valuation model and tested key assumptions used in the impairment analysis, such as discount rate and terminal growth rate. We reviewed the sensitivity analysis performed by the management around key assumptions noted above and the outcomes of the assessment.</li> <li>- Future cash flows were tested through comparison to current performance against budget and forecasts, considering the historical consistency of budgeting and forecasting and understanding from management in respect of key growth and performance assumptions used. We have also reviewed the adequacy of the disclosures included in the consolidated financial statements.</li> </ul>

**INDEPENDENT AUDITOR'S REPORT  
TO SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY  
(A SAUDI JOINT STOCK COMPANY) (continued)**

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**Other information included in the Group's 2018 Annual Report**

Other information consists of the information included in the Group's 2018 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The Group's 2018 annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Group's 2018 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the consolidated 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 Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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**INDEPENDENT AUDITOR'S REPORT  
TO SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY  
(A SAUDI JOINT STOCK COMPANY) (continued)**

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**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT  
TO SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY  
(A SAUDI JOINT STOCK COMPANY) (continued)

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

for Ernst & Young



Marwan Al-Afaliq  
Certified Public Accountant  
License No. 422



21 Rajab 1440H  
28 March 2019  
Al Khobar



Red Sea International Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

		<i>2018</i>	<i>2017</i>
	<i>Note</i>	<i>SR'000</i>	<i>SR'000</i>
Revenues	7	<b>695,677</b>	773,120
Cost of revenues	8	<b>(634,431)</b>	(697,967)
<b>GROSS PROFIT</b>		<b>61,246</b>	75,153
<b>EXPENSES</b>			
Selling and distribution expenses	9	<b>(35,020)</b>	(43,380)
General and administration expenses	10	<b>(83,146)</b>	(79,280)
Impairment of property, plant and equipment	14	<b>(6,417)</b>	-
Impairment of investment properties	15	<b>(5,386)</b>	-
<b>OPERATING LOSS</b>		<b>(68,723)</b>	(47,507)
Other income, net	11	<b>2,108</b>	1,993
Finance cost	12	<b>(13,315)</b>	(12,025)
Finance income		<b>1,057</b>	304
<b>LOSS BEFORE ZAKAT AND INCOME TAX</b>		<b>(78,873)</b>	(57,235)
Income tax expense	31	<b>(969)</b>	(6,009)
Zakat	31	<b>(10,850)</b>	(6,493)
<b>NET LOSS FOR THE YEAR</b>		<b>(90,692)</b>	(69,737)
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the parent company		<b>(85,742)</b>	(65,304)
Non-controlling interests		<b>(4,950)</b>	(4,433)
		<b>(90,692)</b>	(69,737)
<b>LOSS PER SHARE:</b>			
Basic and diluted losses per share attributable to the shareholders of the parent company	13	<b>(1.43)</b>	(1.09)

The attached notes 1 to 39 form part of these consolidated financial statements.

Red Sea International Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 SR'000	2017 SR'000
<b>Loss for the year</b>		<b>(90,692)</b>	<b>(69,737)</b>
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to consolidated statement of profit or loss in subsequent periods net of zakat and tax:</i>			
Exchange differences on translation of foreign operations		(2,102)	341
<b>Net other comprehensive (loss)/income to be reclassified to statement of profits or loss in subsequent periods</b>		<b>(2,102)</b>	<b>341</b>
<i>Other comprehensive income not to be reclassified to the consolidated statement of profit or loss in subsequent periods:</i>			
Actuarial losses on defined benefit liabilities	27	(4,041)	(4,055)
<b>Net other comprehensive loss not to be reclassified to consolidated statement of profit or loss in subsequent periods</b>		<b>(4,041)</b>	<b>(4,055)</b>
<b>Other comprehensive loss for the year</b>		<b>(6,143)</b>	<b>(3,714)</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(96,835)</b>	<b>(73,451)</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:</b>			
Equity holders of the parent company		(91,512)	(69,018)
Non-controlling interests		(5,323)	(4,433)
		<b>(96,835)</b>	<b>(73,451)</b>

The attached notes 1 to 39 form part of these consolidated financial statements.

Red Sea International Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 SR'000	2017 SR'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	159,121	182,784
Investment properties	15	399,322	463,023
Intangible assets	16	41,041	45,803
Trade receivables	19	48,561	75,181
Long-term prepayments	20	4,723	5,153
<b>TOTAL NON-CURRENT ASSETS</b>		<b>652,768</b>	<b>771,944</b>
<b>CURRENT ASSETS</b>			
Inventories	17	122,351	165,997
Contract assets	18	21,877	40,290
Trade receivables	19	225,261	187,612
Advances to suppliers		12,105	11,760
Prepayments and other receivables	20	41,092	40,312
Cash and cash equivalents	21	86,656	85,102
<b>TOTAL CURRENT ASSETS</b>		<b>509,342</b>	<b>531,073</b>
<b>TOTAL ASSETS</b>		<b>1,162,110</b>	<b>1,303,017</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	22	600,000	600,000
Statutory reserve	23	129,260	129,260
(Accumulated losses)/retained earnings		(12,129)	91,710
Foreign currency translation reserve		(5,849)	(3,626)
<b>EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY</b>		<b>711,282</b>	<b>817,344</b>
<b>NON-CONTROLLING INTERESTS</b>	25	<b>(13,458)</b>	<b>(8,135)</b>
<b>TOTAL EQUITY</b>		<b>697,824</b>	<b>809,209</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest bearing loans and borrowings	26	85,418	131,657
Employees' defined benefit liabilities	27	38,025	41,302
Other non-current liabilities	28	16,657	21,475
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>140,100</b>	<b>194,434</b>
<b>CURRENT LIABILITIES</b>			
Trade payables	29	60,759	48,320
Accruals and other current liabilities	30	78,335	90,117
Short-term interest bearing loans and borrowings	26	90,500	40,600
Current portion of interest bearing loans and borrowings	26	48,805	82,007
Advances from customers		19,258	17,816
Zakat and income tax payable	31	26,529	20,514
<b>TOTAL CURRENT LIABILITIES</b>		<b>324,186</b>	<b>299,374</b>
<b>TOTAL LIABILITIES</b>		<b>464,286</b>	<b>493,808</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,162,110</b>	<b>1,303,017</b>

The attached notes 1 to 39 form part of these consolidated financial statements.



Red Sea International Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributed to shareholders of the parent Company						
	Share capital	Statutory reserve	Retained earnings/ (accumulated losses)	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	600,000	129,260	206,069	(3,967)	931,362	(3,702)	927,660
Loss for the year	-	-	(65,304)	-	(65,304)	(4,433)	(69,737)
Other comprehensive (loss)/income	-	-	(4,055)	341	(3,714)	-	(3,714)
Total comprehensive (loss)/income	-	-	(69,359)	341	(69,018)	(4,433)	(73,451)
Dividends (note 24)	-	-	(45,000)	-	(45,000)	-	(45,000)
Balance at 31 December 2017	600,000	129,260	91,710	(3,626)	817,344	(8,135)	809,209
Adjustment on adoption of new accounting standards (note 5)	-	-	(14,550)	-	(14,550)	-	(14,550)
Balance at 1 January 2018	600,000	129,260	77,160	(3,626)	802,794	(8,135)	794,659
Loss for the year	-	-	(85,742)	-	(85,742)	(4,950)	(90,692)
Other comprehensive loss	-	-	(3,547)	(2,223)	(5,770)	(373)	(6,143)
Total comprehensive loss	-	-	(89,289)	(2,223)	(91,512)	(5,323)	(96,835)
Balance at 31 December 2018	600,000	129,260	(12,129)	(5,849)	711,282	(13,458)	697,824

The attached notes 1 to 39 form part of these consolidated financial statements.

Red Sea International Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 SR'000	2017 SR'000
<b>OPERATING ACTIVITIES</b>			
Loss before zakat and income tax		(78,873)	(57,235)
Adjustments to reconcile loss before zakat and income tax to net cash flows:			
Depreciation of property, plant and equipment	14	21,876	20,818
Depreciation of investment properties	15	65,022	79,124
Amortisation of intangible assets	16	5,116	5,741
Impairment of property, plant and equipment	14	6,417	-
Impairment of investment properties	15	5,386	-
Provision for employees' defined benefit liabilities	27	4,452	4,719
Finance costs	12	13,315	12,025
(Gain)/loss on disposals of property, plant and equipment	14	(300)	12
Loss on disposals of investment properties	15	244	658
		<b>42,655</b>	<b>65,862</b>
Working capital adjustments:			
Inventories		54,839	24,958
Contract assets		13,384	(11,458)
Trade receivables - current		(38,399)	116,249
Advances to suppliers		(345)	1,912
Prepayment and other receivables		(780)	1,350
Trade receivables - non current		14,301	(6,969)
Long-term prepayments		430	1,430
Trade payables		12,439	2,346
Accruals and other current liabilities		(12,709)	(8,344)
Other non-current liabilities		(4,818)	(7,910)
Advances from customers		1,442	(285)
<b>Cash from operations</b>		<b>82,439</b>	<b>179,141</b>
Financial charges paid		(12,388)	(12,637)
Zakat and income tax paid	31	(5,804)	(12,398)
Employees' defined benefits paid	27	(11,770)	(22,250)
<b>Net cash from operating activities</b>		<b>52,477</b>	<b>131,856</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	14	(10,908)	(19,256)
Purchase of investment properties	15	(12,901)	(13,210)
Purchase of intangible assets	16	(361)	(2,294)
Proceeds from the sale of property, plant and equipment		3,296	664
Proceeds from the sale of investment properties		101	2,747
<b>Net cash used in investing activities</b>		<b>(20,773)</b>	<b>(31,349)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from the interest bearing loans and borrowings		154,106	232,671
Repayment of interest bearing loans and borrowings		(183,647)	(269,683)
Dividends paid to shareholders	24	-	(45,000)
<b>Net cash used in financing activities</b>		<b>(29,541)</b>	<b>(82,012)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at the beginning of the year		85,102	64,595
Foreign exchange differences, net		(609)	2,012
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>86,656</b>	<b>85,102</b>

The attached notes 1 to 39 form part of these consolidated financial statements.

# Red Sea International Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

### 1 CORPORATE INFORMATION

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 domiciled 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 P.O Box 1039, Jeddah 21431, Al Rawdah district, Prince Mohammed Bin Abdulaziz street, Kingdom of Saudi Arabia. The Company has following branches in the Kingdom of Saudi Arabia:

<i>Branch</i>	<i>Commercial registration number</i>	<i>Location</i>
Red Sea International Company	2055003672	Jubail
Red Sea International Company	2055006105	Jubail
Red Sea Housing Services Company	4602004769	Rabigh

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

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

The Company also owns subsidiaries, registered in Qatar, Nigeria, Libya, Saudi Arabia, Singapore and Malaysia, consolidated in these consolidated financial statements, which are either in early stages of operations or have not commenced any commercial operations. Further, the Company also has licenses to operate branches in Papua New Guinea, Abu Dhabi, Afghanistan and Equatorial Guinea. Branches in Abu Dhabi, Afghanistan and Equatorial Guinea did not have any commercial operations during the year ended 31 December 2018.

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.

The consolidated financial statements of the Group for the year ended 31 December 2018 were authorised for issuance in accordance with the Board of Directors resolution dated 28 March 2019 (corresponding to 21 Rajab 1440H).



At 31 December 2018

## 2 BASIS OF PREPARATION

The consolidated financial statements of the Group 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 Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRSs as endorsed in KSA").

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

These 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.

### 2.1 Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("other comprehensive income") are attributed to the equity holders of the parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in consolidated statement of profit or loss. Any investment retained is recognised at fair value.

Non-controlling interest represents the portion of profit or loss and net assets that are not held by the Group and are presented separately in the consolidated statement of financial position and within shareholders' equity in the consolidated statement of financial position, separately from the equity attributable to the shareholders of the Parent Company.

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### 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that may affect the reported amount of assets and liabilities, revenues, expenses and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates which could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Capital management
- Financial risk management objectives and policies
- Sensitivity analyses disclosures

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

In particular, information about significant areas of estimation, uncertainty, and critical judgements in applying accounting policies (that have the most significant effect on the amount recognised in the consolidated financial statements) includes:

#### 3.1 Significant judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

##### *Satisfaction of performance obligations*

The Group 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 Group has assessed that based on the sale and purchase agreements entered into, with customers and the provisions of relevant laws and regulations, where contracts are entered into to provide real estate assets to customer, the Group does not create an asset with an alternative use to the Group and has an enforceable right to payment for performance completed to date. In these circumstance the Group recognises revenue over the time. Where this is not the case, revenue is recognised at a point in time.

##### *Transfer of control in contracts with customer*

In cases where the Group determines that performance obligations are satisfied at a point in time, revenue is recognised when control over the assets that is the subject of the contract is transferred to the customer. In the case of contracts to sell real estate assets this is generally when the unit has been handed over to the customer.

##### *Determination of transaction price*

The Group is required to determine the transaction price in respect of each of its contracts with customers. In making such judgment the Group assesses the impact of any variable consideration in the contract, due to discounts or penalties, the existence of any significant financing component in the contract and any non-cash consideration in the contract.

In determining the impact of variable consideration the Group uses the "most-likely amount" method in IFRS 15 Revenue from Contracts with Customers whereby the transaction price is determined by reference to the single most likely amount in a range of possible consideration amounts.

##### *Financing Component*

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.

##### *Property lease classification - Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

##### *Operating lease commitments*

The Group has entered into commercial and retail property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

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### 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

#### 3.1 Significant judgements (continued)

##### *Consolidation of subsidiaries*

The Group has evaluated all the investee entities to determine whether it controls the investee as per the criteria laid out by IFRS 10: *Consolidated Financial Statements*. The Group has evaluated, amongst other things, its ownership interest, the contractual arrangements in place and its ability and the extent of its involvement with the relevant activities of the investee entities to determine whether it controls the investee.

#### 3.2 Estimations and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

##### *Impairment of non-financial assets*

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group.

##### *Provision for expected credit losses of trade receivables and contract assets*

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. 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 Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 36.

##### *Defined benefit plans*

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension 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 and other assumptions. 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.



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### 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

#### 3.2 *Estimations and assumptions (continued)*

##### *Defined benefit plans (continued)*

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds. Further details about pension obligations are provided in Note 27.

##### *Impairment of inventories*

Inventories are held at the lower of cost and net realizable value. When inventories become old or obsolete or subject to technological changes, an estimate is made of their net realizable value. Factors considered in determination of realizable value includes current and anticipated demand and age of inventories. For individually significant amounts this estimation is performed on an individual basis. Items which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

##### *Provision for decommissioning*

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of respective asset if the recognition criteria for a provision are met. The Group periodically reassesses the expectation and estimation for the decommissioning liability. Further details about provision for decommissioning are provided in Note 30.

##### *Useful lives of property, plant and equipment and investment properties*

The Group's management determines the estimated useful lives of its property, plant and equipment and investment properties for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. The management periodically reviews estimated useful lives and the depreciation method to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

##### *Allocation of transaction price to performance obligation in contracts with customer*

The Group has elected to apply the input method in allocating the transaction price to performance obligations where revenue is recognised over time. The Group considers that the use of the input method which requires revenue recognition on the basis of the Group's efforts to the satisfaction of the performance obligation provides the best reference of revenue actually earned. In applying the input method, the Group estimates the cost to complete the projects in order to determine the amount of revenue to be recognised. These estimates include the cost of providing infrastructure, potential claims by contractors as evaluated by the project consultant and the cost of meeting other contractual obligations to the customers.

### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 4.1 *Business combination and goodwill*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss in accordance with IFRS 9.

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#### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 4.1 *Business combination and goodwill (continued)*

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated statement of profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

##### 4.2 *Current versus non-current classification*

The Group presents assets and liabilities in the consolidated 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 Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

##### 4.3 *Fair value measurement*

The Group measures financial instruments at fair value at each statement of financial position date. 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 Group.

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 Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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#### **4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **4.3 Fair value measurement (continued)**

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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 consolidated financial statements at fair value on a recurring basis, the Group 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 Group 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.

##### **4.4 Revenue recognition**

###### *a) Revenue from contracts with customers for sale of properties*

The Group recognizes revenue from contracts with customers based on a five step model as set out in IFRS 15:

- Step 1. Identify the contract 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 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 Group 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 Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
- Step 5. Recognize revenue when (or as) the entity satisfies a performance obligation.

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

- (i) The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; or
- (ii) The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- (iii) The Group's performance 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.

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

When the Group satisfies a performance obligation by delivering the promised goods or services, it creates a contract asset based on the amount of consideration earned by the performance. Where the amount billed to the customer exceeds the amount of revenue recognized, this gives rise to a contract liability.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

Revenue is recognized in the consolidated statement of profit or loss and other comprehensive income to the extent that it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably

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#### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 4.4 Revenue recognition (continued)

###### *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 - Building materials*

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 general repairs of defects that existed at the time of sale. These assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

###### *(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 Component*

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.

##### 4.5 Property plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses, If any except assets under construction which are carried at cost less accumulated impairment losses, if any. Historical cost consists of purchase cost, together with any incidental expenses on acquisition.

When parts of property, plant and equipment are significant in cost in comparison to the total cost of the item, and where such parts/components have a useful life different than other parts and are required to be replaced at different intervals, the Company shall recognize such parts as individual assets with specific useful lives and depreciate them accordingly.

Subsequent costs, if any, are Included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with such item will flow to the Group and the cost can be reliably measured. Land is not depreciated as it is deemed to have an indefinite life. Depreciation is calculated on property, plant and equipment so as to allocate its cost, less estimated residual value, using the straight-line method over the estimated useful life of the assets concerned. Depreciation is charged to the consolidated statement of profits or loss.

Buildings and residential houses	10 to 40 years
Machinery and equipment	4 to 15 years
Furniture, fixtures and equipment	4 to 5 years
Motor vehicles	4 to 8 years

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the consolidated statement of income as and when incurred. Major renewals and improvements, if any are capitalized and the assets so replaced are retired. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount and is reviewed at each reporting date for possible reversal of impairment loss.

Borrowing costs related to qualifying assets are capitalized as part of the cost of the qualified assets until the commencement of commercial production.

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#### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 4.6 *Investment properties*

Properties held for rental or capital appreciation purposes are classified as investment properties. Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives of 4-25 years.

No depreciation is charged on land and capital work-in-progress.

The useful lives and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

Properties are transferred from investment properties to development properties when and only when, there is a change in use, evidenced by commencement of development with a view to sell. Such transfers are made at the carrying value of the properties at the date of transfer.

The Group determines at each reporting date whether there is any objective evidence that the investment properties are impaired. Whenever the carrying amount of an investment property exceeds its recoverable amount, an impairment loss is recognised in the consolidated income statement. The recoverable amount is the higher of investment property's net selling price and the value in use. The net selling price is the amount obtainable from the sale of an investment property in an arm's length transaction less related costs while value in use is the present value of estimated future cash flows expected to arise from continuing use of the investment property and from its disposal at the end of its useful life.

Reversal of impairment losses recognised in the prior years is recorded when there is an indication that the impairment losses recognised for the investment property no longer exist or have reduced.

##### 4.7 *Intangible assets /amortisation*

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in consolidated statement of income in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Costs which have a long term future benefit are treated as other intangible assets and are amortized over the estimated period of benefit.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss when the asset is derecognised.

Intangible assets with finite useful lives are amortized using straight-line method over their estimated useful lives as follows:

Computer software	4 to 10 years
Licensing rights	11 to 15 years

The amortization of intangible assets are recorded under general and administration expenses



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#### **4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **4.8 Inventories**

Inventories are stated at the lower of cost and net realizable value. Costs are those expenses incurred in bringing each product to its present location and condition and is calculated on the following basis:

Raw materials	- purchase cost on a weighted average basis.
Work in progress and finished goods	- cost of direct materials and labour plus attributable overheads based on a normal level of activity.
Goods in transits	- cost of direct materials which are under shipment and for which risks and rewards have been passed to the Group and are stated at cost.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

##### **4.9 Contract assets**

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

##### **4.10 Trade receivables**

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

##### **4.11 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, bank balances and time deposits with original maturity of three-months or less from the acquisition date which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

##### **4.12 Contract Liabilities**

Contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

##### **4.13 Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a 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 recognised as a finance cost.

##### *Assurance type warranties*

A provision is recognised for expected warranty claims on products sold during the year, based on past experience of the level of repairs and returns. It is expected that these costs will be incurred in the next financial year. Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns based on the warranty period for all products sold.

##### *Decommissioning costs*

Provision for decommissioning obligation is recognized when the Group has a liability for restoration work or land rehabilitation. The extent of decommissioning required and the associated costs are dependent on the requirements of current laws and regulations.

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#### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 4.13 Provisions (continued)

###### *Decommissioning costs (continued)*

Costs included in the provision includes all decommissioning obligations expected to occur over the life of the asset. The provision for decommissioning is discounted to its present value and capitalized as part of the asset under property, plant and equipment and then depreciated as an expense over the expected life of that asset.

Adjustments to the estimated amount and timing of future decommissioning cash flows are a normal occurrence in light of the significant judgments and estimates involved. Such adjustments are recorded as an increase in liability and a corresponding increase in the related asset. Factors influencing those adjustments include:

- developments in technology;
- regulatory requirements and environmental management strategies;
- changes in the estimated extent and costs of anticipated activities, including the effects of inflation; and
- changes in economic sustainability.

###### *Contingent liabilities recognised in a business combination*

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions above or the amount initially recognised less (when appropriate) cumulative amortisation recognised in accordance with the requirements for revenue recognition.

##### 4.14 Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Liabilities which are probable, they are recorded in the consolidated statement of financial position under accounts payable and accruals. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

##### 4.15 Expenses

Expenses are recognised when incurred based on the accrual basis of accounting. Selling and distribution expenses are those that specifically relate to salesmen, sales department, warranties, warehousing, delivery vehicles as well as provision for impairment of receivables. All other expenses related to main operations are allocated on a consistent basis to direct costs and general and administration expenses in accordance with allocation factors determined as appropriate by the Group.

##### 4.16 Zakat and taxes

###### *Zakat and income tax*

Zakat is provided for the Company and for subsidiaries operate inside the Kingdom of Saudi Arabia in accordance with Regulations of the General Authority of Zakat and Tax (GAZT) prevailing in the Kingdom of Saudi Arabia. Income tax is provided for in accordance with fiscal authorities in which the Company's subsidiaries operate outside the Kingdom of Saudi Arabia. Provision for zakat and income tax is charged to the consolidated statement of income. Additional amounts, if any, are accounted for when determined to be required for payment.

Foreign subsidiaries and foreign branches are subject to income taxes in their respective countries of domicile, except Red Sea Housing Services Company Dubai FZE ("RSD"), which is not subject to income taxes in the United Arab Emirates ("UAE"). Such income taxes are charged to the consolidated statement of income.

###### *Deferred tax*

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

At 31 December 2018

#### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 4.16 Zakat and income tax (continued)

###### *Deferred tax (continued)*

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

###### *Value added tax*

Expenses and assets are recognised net of the amount of value added tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- When receivables and payables are stated with the amount of sales tax included .

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

##### 4.17 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The board of directors of the Group has appointed a Chief Executive Officer, who assesses the financial performance and position of the Group, and makes strategic decisions. Chief Executive Officer has been identified as being the Chief Operating decision maker.

A operating segment is group of assets, operations or entity:

- engaged in revenue producing activities;
- results of operations of which are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- financial information is separately available

At 31 December 2018

#### **4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **4.18 Earnings/(loss) per share**

Basic and diluted earnings/loss per share is calculated by dividing the profit or loss attributable to shareholders of the Group, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the year.

##### **4.19 Operating leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

###### *Group as a lessee*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement in accordance with the terms of the lease contracts over the lease term based on a systematic basis as this method is more representative of the time pattern in which use of benefit are derived from the leased assets.

###### *Group as a lessor*

The Group has entered into leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases. Lease income is recognised in the consolidated income statement in accordance with the terms of the lease contracts over the lease term on a systematic basis as this method is more representative of the time pattern in which use of benefit are derived from the leased assets.

##### **4.20 Foreign currencies**

The Group's consolidated financial statements are presented in Saudi Riyal, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to consolidated statement of income reflects the amount that arises from using this method.

###### *Transaction and balances*

Transactions in foreign currencies are initially recorded by the Group's entities at their respective 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 rates of exchange at the reporting date.

All differences arising on settlement or translation of monetary items are taken to the statement of income with the exception of differences on foreign monetary items that form part of a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are reclassified to consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of a gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or consolidated statement of income, respectively).

###### *Group companies*

On consolidation, the assets and liabilities of foreign operations are translated into Saudi Riyal at the rate of exchange prevailing at the reporting date and their statements of income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is reclassified to consolidated statement of income.

At 31 December 2018

#### **4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **4.21 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 interest and other costs that an entity incurs in connection with the borrowing of funds.

##### **4.22 Employee benefit obligations**

###### *Short-term employee benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

###### *Defined benefit plans*

The Group provides end-of-service benefits to its employees. The entitlement to these benefits is usually based upon the employees' final salary and length of service, subject to the completion of minimum service period. The expected costs of these benefits are accrued over the period of employment.

The present value of the defined benefit obligation for end-of-service benefits is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The interest cost is calculated by applying the discount rate to the balance of the defined benefit obligation. This cost is included in employee benefit expense in the consolidated statement of income. Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly in other comprehensive income and are transferred to retained earnings in the consolidated statement of changes in equity in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in the consolidated statement of income as past service costs.

The calculation of defined benefit obligations is performed periodically using the projected unit credit method.

##### **4.23 Cash dividend**

Dividends distribution to the Group's shareholders is recognized as a liability in the consolidated financial statements in the period in which the dividends are approved by the Group's shareholders.

##### **4.24 Financial instruments – initial recognition, subsequent measurement and derecognition**

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.

###### **Financial assets**

###### *Initial recognition and measurement*

Financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

###### *Subsequent measurement*

Financial assets are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The category most relevant to the Group is financial assets measured at amortized cost.

###### *Financial assets at amortised cost*

This category is the most relevant to the Group. The Group measures financial asset at amortised cost 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 solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion'). This category includes the Group's trade receivable, contract assets and other receivables and other non-current financial assets.



At 31 December 2018

#### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 4.24 Financial instruments – initial recognition, subsequent measurement and derecognition (continued)

###### Financial assets (continued)

###### *Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group 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:
  - (a) the Group has transferred substantially all the risks and rewards of the asset, or
  - (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an other comprehensive income and related liability. The transferred asset and the other comprehensive income related liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

###### *Impairment of financial assets*

IFRS 9 requires the Group to record an allowance for expected credit losses ("ECL") 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 trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECL 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.

For other debt financial assets, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers a financial asset in default when contractual payment 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.

###### Financial liabilities

###### *Initial recognition and measurement*

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.

###### *Subsequent measurement*

The financial liabilities are subsequently measured at amortized costs.

At 31 December 2018

#### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 4.24 Financial instruments – initial recognition, subsequent measurement and derecognition (continued)

###### Financial liabilities (continued)

###### *Derecognition*

A financial liability is derecognized 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 comprehensive income.

###### *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

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.

##### 4.25 Impairment of non financial assets

The Group 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 Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's 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 groups of assets. 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 pre-tax 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 costs of disposal, recent market transactions are taken into account. If no such transactions can 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.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to other comprehensive income. For such properties, the impairment is recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised 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 recognised. The reversal is limited so 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 recognised for the asset in prior years. Such reversal is recognised 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.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

At 31 December 2018

#### **4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **4.26 Statutory reserve**

As required by Saudi Arabian Regulations for Companies, the Company must transfer 10% of its income to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the share capital (reduced to 30% in accordance with new Saudi Arabian Regulations for Companies effective from 29 April 2016). The reserve is not available for distribution.

#### **5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS**

The Group applied, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. As required by IAS 8, the nature and effect of these changes, if any, are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the financial statements of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

##### ***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. 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.

##### ***IFRS 9 Financial Instruments***

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.

##### ***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.

At 31 December 2018

**5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)**

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 5.1)	Adjustment on adoption of IFRS 15 SR '000 (Note 5.2)	1 January 2018 SR '000 (Restated)
Contract assets	36,640	-	(5,029)	<b>31,611</b>
Inventories	165,997	-	3,548	<b>169,545</b>
Accounts receivable				
- Current	75,181	(750)	-	<b>74,431</b>
- Non-current	191,262	(12,319)	-	<b>178,943</b>
	<b>469,080</b>	<b>(13,069)</b>	<b>(1,481)</b>	<b>454,530</b>
Retained earnings	<b>91,710</b>	<b>(13,069)</b>	<b>(1,481)</b>	<b>77,160</b>

5.1 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 consolidated statement of changes in equity.

5.2 In the prior year, the revenues from contracts for sale of buildings to customers were recognized based on percentage of completion method. Under this method, 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 statement of changes in equity.

**6 STANDARDS ISSUED BUT NOT EFFECTIVE**

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

**IFRS 16 - Leases**

The IASB has issued a new standard for the recognition of leases. This standard will replace:

- IAS 17 – Leases (“IAS 17”)
- IFRIC 4 – Whether an arrangement contains a lease
- SIC 15 – Operating leases – Incentives
- SIC 27 – Evaluating the substance of transactions involving the legal form of a lease

Under IAS 17, lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 ‘Leases’ (“IFRS 16”) will require lessees to recognise a lease liability reflecting future lease payments and a ‘right-of-use asset’ for all lease contracts apart from an optional exemption for certain short-term leases and low value assets. In addition, under the new lease standard, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At 31 December 2018

## 6 STANDARDS ISSUED BUT NOT EFFECTIVE (continued)

### *IFRS 16 - Leases (continued)*

The Group will adopt IFRS 16 'Leases' ("IFRS 16") from its mandatory adoption date of 1 January 2019 by applying the modified simplified transition approach as permitted under the specific transition provisions in the standard. As a result, comparatives for the 2018 financial year will not be restated. The Group has not used the practical expedient of applying IFRS 16 to only those contracts that were previously identified as leases under IAS 17 'Leases'.

On adoption of IFRS 16, the Group will recognise lease liabilities and associated right-of-use assets in relation to contracts that have been concluded as leases under the principles of IFRS 16. The liabilities will be measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The associated rights-of-use assets will be measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018. The Group is in the process of finalizing its calculation of the final amount for the right-of-use assets and lease liability as at 1 January 2019. The impact is expected to be between 1% - 3% of total assets and 1% - 3% of total liabilities. There will be immaterial impact, if any, on retained earnings on 1 January 2019.

### 2015-2017 cycle (issued in December 2017)

- *IFRS 3 Business Combinations - Previously held Interests in a joint operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

- *IFRS 11 Joint Arrangements - Previously held Interests in a joint operation*

party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

- *IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

- *IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

### *IFRIC Interpretation 23 Uncertainty over Income Tax Treatments*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. These amendments have no impact on the consolidated financial statements of the Group.



At 31 December 2018

## **6 STANDARDS ISSUED BUT NOT EFFECTIVE (continued)**

### ***Prepayment Features with Negative Compensation - Amendments to IFRS 9***

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the 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 amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

### ***Plan Amendment, Curtailment or Settlement - Amendments to IAS 19***

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

- Determine current service cost for the 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 the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the 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 apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

### ***Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28***

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests. The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

### ***IFRS 17 Insurance Contracts***

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

### ***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.***

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2018

**7 REVENUES**

	<i>2018</i> <i>SR'000</i>	<i>2017</i> <i>SR'000</i>
<i>Revenue from the contract with customers</i>		
Contract revenue	<b>383,290</b>	409,795
Sale of paint and paint related products and services	<b>45,724</b>	47,132
	<b>429,014</b>	456,927
<i>Other revenue</i>		
Rental revenue from investment properties	<b>266,663</b>	316,193
	<b>695,677</b>	773,120

**8 COST OF REVENUES**

	<i>2018</i> <i>SR'000</i>	<i>2017</i> <i>SR'000</i>
Cost of material consumed	<b>427,543</b>	476,295
Depreciation and amortisation	<b>88,884</b>	101,692
Employee salaries and benefits	<b>76,767</b>	90,484
Others	<b>41,237</b>	29,496
	<b>634,431</b>	697,967

**9 SELLING AND DISTRIBUTION EXPENSES**

	<i>2018</i> <i>SR'000</i>	<i>2017</i> <i>SR'000</i>
Employee salaries and benefits	<b>27,033</b>	33,334
Marketing fees	<b>977</b>	1,416
Others	<b>7,010</b>	8,630
	<b>35,020</b>	43,380

**10 GENERAL AND ADMINISTRATION EXPENSES**

	<i>2018</i> <i>SR'000</i>	<i>2017</i> <i>SR'000</i>
Employee salaries and benefits	<b>36,110</b>	46,734
Provision for expected credit losses (note 19)	<b>26,438</b>	2,481
Professional fees	<b>6,595</b>	10,071
Rent	<b>2,630</b>	3,655
Travelling	<b>1,953</b>	2,909
Depreciation	<b>1,950</b>	3,106
Utilities	<b>1,491</b>	2,181
Insurance	<b>908</b>	719
Others	<b>5,071</b>	7,424
	<b>83,146</b>	79,280

# Red Sea International Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2018

### 11 OTHER INCOME, NET

	2018 SR'000	2017 SR'000
Net foreign currency exchange (losses)/gains	(2,802)	1,506
Net gains/(losses) on disposal of property, plant and equipment	300	(12)
Net losses on disposal of investment properties	(244)	(658)
Scrap sales	1,270	724
Others	3,584	433
	<b>2,108</b>	<b>1,993</b>

### 12 FINANCE COST

	2018 SR'000	2017 SR'000
Conventional borrowings	7,416	6,464
Non-conventional borrowings	3,900	2,766
Bank charges and other costs	1,072	1,991
Unwinding of discount for provision for decommissioning	927	804
	<b>13,315</b>	<b>12,025</b>

### 13 LOSS PER SHARE

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

	2018 SR'000	2017 SR'000
Loss for the year attributable to the shareholders of the parent Company	(85,742)	(65,304)
Weighted average number of outstanding shares during the year (share '000)	60,000	60,000
Basic and diluted loss per share attributable to the shareholders of the Parent Company	<b>(1.43)</b>	<b>(1.09)</b>

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2018

**14 PROPERTY, PLANT AND EQUIPMENT**

	<i>Freehold land</i>	<i>Buildings and residential houses (note 14.1)</i>	<i>Machinery and equipment</i>	<i>Furniture, fixtures and office equipment</i>	<i>Vehicles</i>	<i>Capital work-in- progress</i>	<i>Total</i>
	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
<i>Cost:</i>							
At 1 January 2017	2,250	188,409	82,619	23,499	45,684	42,087	<b>384,548</b>
Additions	-	2,500	6,417	2,504	2,154	5,681	<b>19,256</b>
Disposal	-	(268)	(2,497)	(55)	(1,387)	-	<b>(4,207)</b>
Transfers	-	3,104	2,637	182	-	(5,923)	<b>-</b>
Transfer from investment properties	-	1,431	-	-	-	-	<b>1,431</b>
Transfer to investment properties	-	(903)	-	-	-	-	<b>(903)</b>
Transfer from inventories	-	10,292	433	-	-	263	<b>10,988</b>
Foreign currency translation	-	497	54	52	(41)	2,617	<b>3,179</b>
<b>At 31 December 2017</b>	<b>2,250</b>	<b>205,062</b>	<b>89,663</b>	<b>26,182</b>	<b>46,410</b>	<b>44,725</b>	<b>414,292</b>
<i>Accumulated depreciation and impairment:</i>							
At 1 January 2017	-	74,821	54,107	13,402	28,671	40,331	<b>211,332</b>
Charge for the year	-	9,299	5,610	2,781	2,735	393	<b>20,818</b>
Disposal	-	(20)	(1,686)	(41)	(1,137)	-	<b>(2,884)</b>
Transfer from investment properties	-	755	-	-	-	-	<b>755</b>
Transfer to investment properties	-	(1)	-	-	-	-	<b>(1)</b>
Foreign currency translation	-	415	(20)	7	375	711	<b>1,488</b>
<b>At 31 December 2017</b>	<b>-</b>	<b>85,269</b>	<b>58,011</b>	<b>16,149</b>	<b>30,644</b>	<b>41,435</b>	<b>231,508</b>
<i>Net book amounts:</i>							
At 31 December 2017	2,250	119,793	31,652	10,033	15,766	3,290	182,784

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2018

**14 PROPERTY, PLANT AND EQUIPMENT (continued)**

	<i>Freehold land</i>	<i>Buildings and residential houses</i>	<i>Machinery and equipment</i>	<i>Furniture, fixtures and office equipment</i>	<i>Vehicles</i>	<i>Capital work-in- progress (Note 14.2)</i>	<i>Total</i>
	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
<i>Cost:</i>							
<b>At 1 January 2018</b>	<b>2,250</b>	<b>205,062</b>	<b>89,663</b>	<b>26,182</b>	<b>46,410</b>	<b>44,725</b>	<b>414,292</b>
Additions	-	6,116	2,195	1,257	379	961	<b>10,908</b>
Disposals	-	(6,546)	(390)	(149)	(1,541)	-	<b>(8,626)</b>
Transfers	-	1,233	-	-	-	(1,233)	-
Transfer to investment properties	-	(59)	-	-	-	-	<b>(59)</b>
Transfer from inventories	-	82	-	-	-	-	<b>82</b>
Transfer to inventories	-	(2,148)	-	(30)	-	(18)	<b>(2,196)</b>
Foreign currency translation	-	(660)	(230)	(156)	(664)	(1,106)	<b>(2,816)</b>
<b>At 31 December 2018</b>	<b>2,250</b>	<b>203,080</b>	<b>91,238</b>	<b>27,104</b>	<b>44,584</b>	<b>43,329</b>	<b>411,585</b>
<i>Depreciation and impairment:</i>							
<b>At 1 January 2018</b>	-	<b>85,269</b>	<b>58,011</b>	<b>16,149</b>	<b>30,644</b>	<b>41,435</b>	<b>231,508</b>
Charge for the year	-	10,575	5,764	2,686	2,851	-	<b>21,876</b>
Disposals	-	(3,684)	(356)	(110)	(1,480)	-	<b>(5,630)</b>
Transfer to investment properties	-	(39)	-	-	-	-	<b>(39)</b>
Transfer to inventories	-	(272)	-	(10)	-	-	<b>(282)</b>
Impairment (note 14.3)	-	4,320	934	-	163	1,000	<b>6,417</b>
Foreign currency translation	-	(398)	(178)	(142)	(204)	(464)	<b>(1,386)</b>
<b>At 31 December 2018</b>	-	<b>95,771</b>	<b>64,175</b>	<b>18,573</b>	<b>31,974</b>	<b>41,971</b>	<b>252,464</b>
<i>Net book amounts:</i>							
At 31 December 2018	2,250	107,309	27,063	8,531	12,610	1,358	159,121

14.1 The Group production facilities are located on plots of land leased under various operating lease arrangements.

14.2 Capital work in progress is mainly relates to the construction of buildings and camps in Libya. In the prior years, the management of the Group had recorded an impairment loss of SR 41 million . In the current year, management of the Group re-assessed the recoverable amount for these assets and recorded an additional impairment of SR 1 million in the consolidated statement of profit or loss.

14.3 During the year, the Group has recorded impairment loss of SR 5.2 million in the books of one of its subsidiaries (RSG) after taking into consideration the physical condition and accessibility to these assets, held at a remote location.



Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2018

**14 PROPERTY, PLANT AND EQUIPMENT (continued)**

14.2 Depreciation for the years has been allocated as follows:

	2018 SR'000	2017 SR'000
Cost of revenue	19,369	16,396
General and administration expenses	1,764	3,106
Selling and distribution expenses	743	1,316
	<b>21,876</b>	<b>20,818</b>

**15 INVESTMENT PROPERTIES**

	<i>Freehold land</i> SR '000	<i>Buildings and residential houses</i> SR '000	<i>Capital work-in- progress</i> SR '000	<i>Total</i> SR '000
<i>Cost:</i>				
<b>At 1 January 2017</b>	4,228	879,298	39,602	<b>923,128</b>
Additions	-	1,902	11,308	<b>13,210</b>
Disposals	-	(5,964)	-	<b>(5,964)</b>
Transfers	-	47,423	(47,423)	<b>-</b>
Transfer from inventories	-	1,251	-	<b>1,251</b>
Transfer to property, plant and equipment	-	(1,431)	-	<b>(1,431)</b>
Transfer from property, plant and equipment	-	903	-	<b>903</b>
Foreign currency translation	-	(20)	-	<b>(20)</b>
<b>At 31 December 2017</b>	<b>4,228</b>	<b>923,362</b>	<b>3,487</b>	<b>931,077</b>
Additions	-	984	11,917	<b>12,901</b>
Disposal	-	(2,713)	-	<b>(2,713)</b>
Transfers	-	7,004	(7,004)	<b>-</b>
Transfer from inventories	-	198	1,161	<b>1,359</b>
Transfer to inventories	-	(10,057)	-	<b>(10,057)</b>
Transfer from property, plant and equipment	-	59	-	<b>59</b>
Foreign currency translation	-	(69)	-	<b>(69)</b>
<b>At 31 December 2018</b>	<b>4,228</b>	<b>918,768</b>	<b>9,561</b>	<b>932,557</b>
<i>Accumulated depreciation</i>				
<b>At 1 January 2017</b>	-	393,346	-	<b>393,346</b>
Charge for the year	-	79,124	-	<b>79,124</b>
Disposals	-	(3,206)	-	<b>(3,206)</b>
Transfer from inventories	-	(456)	-	<b>(456)</b>
Transfer to property, plant and equipment	-	(755)	-	<b>(755)</b>
Transfer from property, plant and equipment	-	1	-	<b>1</b>
<b>At 31 December 2017</b>	-	<b>468,054</b>	-	<b>468,054</b>
Charge for the year	-	65,022	-	<b>65,022</b>
Disposal	-	(2,368)	-	<b>(2,368)</b>
Transfer from property, plant and equipment	-	39	-	<b>39</b>
Transfer to inventories	-	(2,885)	-	<b>(2,885)</b>
Impairment	-	5,386	-	<b>5,386</b>
Foreign currency translation	-	(13)	-	<b>(13)</b>
<b>At 31 December 2018</b>	-	<b>533,235</b>	-	<b>533,235</b>
<i>Net book amounts:</i>				
<b>At 31 December 2018</b>	<b>4,228</b>	<b>385,533</b>	<b>9,561</b>	<b>399,322</b>
At 31 December 2017	4,228	455,308	3,487	463,023

# Red Sea International Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2018

### 15 INVESTMENT PROPERTIES (continued)

15.1 Direct operating expenses in respect of investment properties generating rental income for the year amounts to SR 57.3 million (2017: SR 83.7 million).

15.2 Subsequent to the balance sheet date, the group entered into an arrangement with a third party to transfer certain investment properties for RSA (a subsidiary) at an amount which is lower than the carrying amount by SR 5.4 million. Accordingly, the Group has impaired investment properties for SR 5.4 million considering the carrying value exceeds fair value for such properties.

15.3 At the reporting date, the fair value of the Group's investment property has been arrived on the basis of the valuation exercise carried out by following independent valuers, who are not related to the Group. Fair value of investment properties carried at cost less accumulated depreciation and impairment losses.

<u>Location</u>	<u>Independent valuers</u>	<u>Valuer's qualification</u>	<u>Fair Value</u>
<u>2018</u>			
KSA	Land Sterling Property Consultants	Registered valuers with Saudi Authority for Accredited Valuers (Saudi Arabia) and Member (Royal Institute of Chartered Surveyors)	384,050
Dubai	Land Sterling Property Consultants		1,975
Oman	Land Sterling Property Consultants		1,840
Algeria	Land Sterling Property Consultants		23,093
PNG	Century 21 Siule Real Estate Company (Mark Joseph Kelep)	Certified Valuer (Papua New Guinea Valuers Registration Board)	1,708
			412,667
<u>2017</u>			
KSA	Tunuf Consultants	Registered valuers with Saudi Authority for Accredited Valuers (Saudi Arabia)	427,500
Dubai	Tunuf Consultants		800
Oman	Tunuf Consultants		10,000
PNG	Century 21 Siule Real Estate Company (Mark Joseph Kelep)	Certified Valuer (Papua New Guinea Valuers Registration Board) Member (Royal Institute of Chartered Surveyors)	1,683
Algeria	Land Sterling Property Consultants		24,244
			464,227

15.4 To determine the fair value of the properties, the valuer used net income method whereby the market rentals of all lettable properties are assessed by reference to the rentals achieved for the same properties as well as similar properties in the neighborhood. The capitalization rate is adopted by reference to the yield rates observed by the valuers for similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. Above fair value does not include assets under construction.

15.5 The Group uses the following hierarchy for determining and disclosing the fair values of its investment properties by valuation techniques:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
<b>2018</b>	-	-	412,667	<b>412,667</b>
<b>2017</b>	-	-	464,227	<b>464,227</b>

15.6 Any significant movement in the assumptions used for fair valuation of investment properties such as discount rate, yield, rental growth etc. would result in significantly lower / higher fair value of these assets.

# Red Sea International Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2018

### 16 INTANGIBLE ASSETS

	<i>Licenses</i>	<i>Goodwill</i>	<i>Computer software</i>	<i>Total</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
<i>Cost:</i>				
<b>At 1 January 2017</b>	49,086	6,365	5,406	<b>60,857</b>
Additions	1,244	-	1,050	<b>2,294</b>
Foreign currency translation differences	(7)	-	24	<b>17</b>
<b>At 31 December 2017</b>	50,323	6,365	6,480	<b>63,168</b>
Additions	-	51	310	<b>361</b>
Foreign currency translation differences	(16)	-	(5)	<b>(21)</b>
<b>At 31 December 2018</b>	<b>50,307</b>	<b>6,416</b>	<b>6,785</b>	<b>63,508</b>
<i>Accumulated amortisation:</i>				
<b>At 1 January 2017</b>	9,389	-	2,232	<b>11,621</b>
Charge for the year	4,222	-	1,519	<b>5,741</b>
Foreign currency translation differences	(3)	-	6	<b>3</b>
<b>At 31 December 2017</b>	13,608	-	3,757	<b>17,365</b>
Charge for the year	3,935	-	1,181	<b>5,116</b>
Foreign currency translation differences	(10)	-	(4)	<b>(14)</b>
<b>At 31 December 2018</b>	<b>17,533</b>	<b>-</b>	<b>4,934</b>	<b>22,467</b>
<i>Net carrying value</i>				
<b>At 31 December 2018</b>	<b>32,774</b>	<b>6,416</b>	<b>1,851</b>	<b>41,041</b>
At 31 December 2017	36,715	6,365	2,723	45,803

#### 16.1 Impairment test for CGU containing goodwill

Goodwill has been allocated to "Paints and related Services" operating segment and it is monitored by the management at "Premier Paints Company" CGU level. The recoverable amount of this CGU was based on value in use of CGU. The cashflow projections included specific estimates for 5 years and a terminal growth rate thereafter. The recoverable amounts of the CGU has been determined based on a value in use calculation using the cash flow projections based on financial budgets approved by the management for 2019 and assuming an average annual growth rate 10% for the next five years. Thereafter, the growth rate estimated to be the current short-term growth rate for the paint industry. As a result of the exercise, the management has concluded that no impairment provision is considered necessary in the consolidated statement of profit or loss.

#### Key assumptions used in value in use calculations

The calculation of value in use is sensitive to the following assumptions:

- Revenue;
- Earning Before Interest, Tax, Depreciation and Amortisation ("EBITDA");
- Discount rates; and
- Growth rate used to extrapolate cash flows beyond the 5 year period.

#### Sensitivity to changes in assumptions

With regard to the assessment of value in use of the cash generating units, the management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2018

**17 INVENTORIES**

	<i>2018</i> <i>SR'000</i>	<i>2017</i> <i>SR'000</i>
Raw materials	<b>55,292</b>	64,348
Finished goods	<b>85,543</b>	99,393
Work in progress	<b>14,738</b>	20,952
Goods in transit	-	159
	<b>155,573</b>	184,852
Less: provision for obsolete inventory	<b>(33,222)</b>	(18,855)
	<b>122,351</b>	165,997

17.1 During the year, movement in the provision for obsolescent inventory is as follows:

	<i>2018</i> <i>SR'000</i>	<i>2017</i> <i>SR'000</i>
At the beginning of the year	<b>18,855</b>	10,088
Provision for the year	<b>14,798</b>	8,925
Written-off during the year	<b>(269)</b>	(167)
Exchange differences	<b>(162)</b>	9
	<b>33,222</b>	18,855

At the balance sheet date, the Group re-assessed the realisable value of inventories and as a result recorded an additional provision of SR 14 million in the consolidated statement of profit or loss by taking into consideration the age and condition of these inventories.

At 31 December 2018

**18 CONTRACT ASSETS**

	<b>2018</b>	<b>2017</b>
	<b>SR'000</b>	<b>SR'000</b>
Cost and estimated earnings	<b>334,854</b>	273,697
Less: billings and recognised losses	<b>(312,977)</b>	(233,407)
	<b>21,877</b>	40,290

The contract assets decreased in the current year due to the short-term nature of the contracts with customers whereby, the Group was billing the revenue within a shorter period of time as compared to last year. In 2018, SR 2.3 million (2017: SR Nil) was recognised as provision for expected credit losses on contract assets.

**19 TRADE RECEIVABLES**

	<b>2018</b>			<b>2017</b>		
	<i>Receivables from contracts with customers</i>	<i>Rental receivables</i>	<i>Total</i>	<i>Receivables from contracts with customers</i>	<i>Rental receivables</i>	<i>Total</i>
	<b>SR'000</b>			<b>SR'000</b>		
Billed	228,445	104,774	<b>333,219</b>	191,250	94,393	285,643
Retentions receivable	19,309	1,177	<b>20,486</b>	20,318	1,177	21,495
Provision for expected credit losses	(78,530)	(1,353)	<b>(79,883)</b>	(43,081)	(1,264)	(44,345)
	169,224	104,598	<b>273,822</b>	168,487	94,306	262,793
Less: current portion	(120,663)	(104,598)	<b>(225,261)</b>	(93,306)	(94,306)	(187,612)
Non current portion (note 19.2)	48,561	-	<b>48,561</b>	75,181	-	75,181

Non-current portion of trade receivables includes an amount due from a related party for SR 15.3 million (2017: 15.3 million). Terms and conditions for related party transactions and balances are disclosed under note 32 of these consolidated financial statements.

Trade receivables are non-interest bearing and the Group's credit period is 60-90 days after which trade receivables are considered to be past due. Unimpaired trade receivables are unsecured and are expected, on the basis of past experience, to be fully recoverable. Movements in provision for expected credit losses are as follows:

	<b>2018</b>	<b>2017</b>
	<b>SR'000</b>	<b>SR'000</b>
At the beginning of the year	<b>44,345</b>	42,557
Provision for the year (note 10)	<b>23,656</b>	2,481
Provision for prior years (note 5)	<b>13,069</b>	-
Write-off during the year	<b>(1,187)</b>	(693)
At the end of the year	<b>79,883</b>	44,345

19.1 In 2016, the Group filed a legal case in Houston, Texas, USA against one of its customers, its subsidiaries and its directors (for the construction of a camp facility based in Angola), demanding repayment of receivable balances due from this customer. The customer had failed to meet its obligations for timely transfer of funds to the Group as per the repayment schedule due to certain restrictions on repatriation of the funds in foreign currency out of Angola. The law firm representing the Group, based on a preliminary assessment, had expected to reach an outcome of this legal case within 24 months from the date of the filing of the legal case. However, as at the balance sheet date, the lawsuit is still pending. Further, the customer have signed a confession of debt document, which includes a declaration to the effect that the ownership of the camp remains with the Group until such time as the indebtedness is settled in full.

At 31 December 2018

**19 TRADE RECEIVABLES (continued)**

- 19.1 Total outstanding balance from this customer including the current portion amounted to SR 88.7 million as of 31 December 2018 (2017: 88.7 million). In the light of the above pending litigation and related outcome, the management of the Group has recorded a provision against this balance amounting to SR 55.5 million (2017: SR 28.8 million). The Group management believes that the amount recorded as provision is sufficient to meet any future expected losses and the eventual outcome will not result in any additional significant loss to the Group. This is further supported with the fact that the Group has secured its outstanding receivable from customer (including interest), by (a) entering into a promissory note of SR 122 million (US \$ 32.5 million); and (b) by registering a second charge over the camp assets in Angola, subsequent to the balance sheet date.
- 19.2 Further, as of 31 December 2018, the Group has a receivable of SR 23.7 million (2017: SR 26.4 million) from Papua New Guinea Government outstanding for more than three years. Provision against such receivable amounted to SR 9 million (2017: SR 9 million). The Group management believes that the amount will be collected in due course and there is no dispute with the customer as the customer has also confirmed the balance outstanding as of 31 December 2018.
- 19.3 Refer to note 36 on credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

**20 PREPAYMENTS AND OTHER RECEIVABLES**

	2018 SR'000	2017 SR'000
Prepaid expenses and deposits	17,784	17,879
Prepaid lease rentals	13,174	17,182
Advances to employees	1,709	3,348
Amount due from related a related party (note 32)	-	1,000
Advance and valued added tax for the foreign subsidiaries	4,922	3,555
Others	8,226	2,501
	<b>45,815</b>	45,465
Less prepaid lease rental - long term portion	<b>(4,723)</b>	(5,153)
	<b>41,092</b>	40,312

- 20.1 Long term prepayments represent advance lease rent paid for land on which production facilities has been obtained under a lease agreement for the right to use certain facilities located in Ghana, Dubai and Algeria. Long-term prepayment is amortized over the term of the lease period on straight line basis.

**21 CASH AND CASH EQUIVALENTS**

	2018 SR'000	2017 SR'000
Bank balances	41,539	64,510
Short-term deposits	44,614	20,000
Cash in hand	503	592
	<b>86,656</b>	85,102

Short term deposits (conventional) are held with commercial banks and yield financing income at prevailing market rates. The annual interest on short term deposits ranges from 1.5% to 2.8% (2017: 1.1% to 1.2%). Total finance income on short-term deposits amounted to SR 1 million (2017: SR 0.3 million).

**22 SHARE CAPITAL**

The authorised paid up share capital of the Company as at 31 December 2018 and 2017 was comprised of 60,000,000 shares stated at Saudi Riyals 10 per share.

# Red Sea International Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2018

### 23 STATUTORY RESERVE

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's by-laws the Company is required to transfer 10% of the net profit for the year to a statutory reserve until such reserve equals 30% of its share capital. This reserve currently is not available for distribution to the shareholders of the Company. No such transfer was made during the year due to net loss for the year.

### 24 DIVIDENDS

In 2016, the shareholders of the Company in their General Assembly meeting held on 25 Shabaan 1438 H (21 May 2017) approved dividends of SR 0.75 per share amounting to SR 45.0 million which were fully paid in prior year.

### 25 MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests is provided below:

#### *Proportion of equity interest held by non-controlling interests:*

<i>Name</i>	<i>Principal activities</i>	<i>Country of incorporation</i>	<b>2018</b>	<b>2017</b>
SARL Red Sea Housing Services Algeria Limited ("RSA")	Rental/sales of non-concrete building	Algeria	<b>2%</b>	2%
Premier Paints Company ("PPC")	Manufacturing and trading paints	Saudi Arabia	<b>19%</b>	19%
Red Sea Housing Malaysia Sdn. Bhd. ("RSHM")	Non-concrete and modular building sales	Malaysia	<b>10%</b>	10%

The summarised financial information of the above subsidiary is provided below. This information is based on amounts before inter-company eliminations.

#### *Summarised statement of profit or loss and other comprehensive income:*

	<i>31 December 2018</i>			<i>31 December 2017</i>		
	<i>SR'000</i>			<i>SR'000</i>		
	<i>RSA</i>	<i>PPC</i>	<i>RSHM</i>	<i>RSA</i>	<i>PPC</i>	<i>RSHM</i>
Revenues	<b>9,081</b>	<b>47,001</b>	<b>37,061</b>	25,795	49,339	78,585
Loss or profit for the year	<b>(8,821)</b>	<b>(7,206)</b>	<b>(34,041)</b>	(1,562)	(6,181)	(32,274)
Other comprehensive (loss)/income	<b>-</b>	<b>(2,605)</b>	<b>1,212</b>	-	-	-
Total comprehensive loss	<b>(8,821)</b>	<b>(9,811)</b>	<b>(32,829)</b>	(1,562)	(6,181)	(32,274)
Loss allocated to non-controlling interest	<b>(176)</b>	<b>(1,864)</b>	<b>(3,283)</b>	(32)	(1,174)	(3,227)

#### *Summarised statement of financial position:*

	<i>31 December 2018</i>			<i>31 December 2017</i>		
	<i>SR'000</i>			<i>SR'000</i>		
	<i>RSA</i>	<i>PPC</i>	<i>RSHM</i>	<i>RSA</i>	<i>PPC</i>	<i>RSHM</i>
Current assets	<b>9,684</b>	<b>15,421</b>	<b>7,579</b>	19,654	15,961	38,761
Current liabilities	<b>(3,096)</b>	<b>(54,220)</b>	<b>(17,511)</b>	(8,469)	(41,755)	(33,467)
Net current assets/(liabilities)	<b>6,588</b>	<b>(38,799)</b>	<b>(9,932)</b>	11,185	(25,794)	5,294
Non-current assets	18,968	41,384	4,656	26,067	38,626	5,377
Non-current liabilities	-	(2,576)	(44,587)	-	(3,011)	(27,704)
Net non-current assets	18,968	38,808	(39,931)	26,067	35,615	(22,327)
Net assets	25,556	9	(49,863)	37,252	9,821	(17,033)

At 31 December 2018

**25 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)**

	<i>31 December 2018</i>			<i>31 December 2017</i>		
	<i>SR'000</i>			<i>SR'000</i>		
	<i>RSA</i>	<i>PPC</i>	<i>RSHM</i>	<i>RSA</i>	<i>PPC</i>	<i>RSHM</i>
Cash flows (used in)/from operating activities	<b>(1,075)</b>	<b>1,016</b>	<b>(15,821)</b>	50	2,019	(5,054)
Cash from/(used in) investing	<b>100</b>	<b>(6,100)</b>	<b>(381)</b>	(414)	(10,328)	(2,941)
Cash from/(used in) financing	<b>(636)</b>	<b>4,464</b>	<b>16,883</b>		9,000	9,585
Net (decrease)/increase in cash and cash equivalents	<b>(1,611)</b>	<b>(620)</b>	<b>681</b>	(364)	691	1,590

25.1 On April 1, 2016, the Group acquired 90% equity interest in RSHM, a limited liability company registered in Malaysia, against a purchase consideration of SR 26.5 million. The purchase consideration amount includes contingent consideration of SR 0.8 million and has no changes in the fair value during the year.

**26 INTEREST BEARING LOANS AND BORROWINGS**

	<i>2018</i>	<i>2017</i>
	<i>SR'000</i>	<i>SR'000</i>
Interest bearing short-term borrowings (note 26.1)	<b>90,500</b>	40,600
Current portion of long-term borrowings (note 26.2)	<b>48,805</b>	82,007
Total short-term and current portion of long-term borrowings	<b>139,305</b>	122,607
Non-current portion of long-term borrowing (note 26.2)	<b>85,418</b>	131,657
Total borrowings	<b>224,723</b>	254,264

26.1 At 31 December 2018 and 2017 short-term borrowings represent bank loans obtained from various commercial banks and bear financial charges at prevailing market rates which are based on Saudi and UAE inter-bank offer rates. These borrowings are denominated in SR. Total unused credit facilities available to the Group at 31 December 2018 were approximately SR 147.9 million (2017: SR 333.9 million) principally representing overdrafts, short-term loans and re-financing of letters of credit. Certain credit facility agreements contain covenants requiring maintenance of certain financial ratios and other matters and are secured by promissory notes, inventories and assignment of contract proceeds.

26.2 Long term borrowing represents loans obtained from commercial banks mainly in the Kingdom of Saudi Arabia. These borrowings are denominated in SR and generally bear financial charges based on prevailing market rates which are based on inter-bank offer rates. The aggregate maturities of these borrowings, based on their respective repayment schedules, are spread through the years until 2023. The portion of the loan payable before 1 January 2020 has been classified under current liabilities. The facilities are subject to interest at SIBOR plus a fixed margin between 1.25% and 2.00% for these loans. These loans are principally secured by promissory notes and assignment of contract proceeds. The long-term borrowing agreements contain covenants requiring maintenance of certain financial ratios, lenders' prior approval for change in ownership structure of the Company, retention of a certain proportion of profits in the business and certain other matters, of which the Group was in compliance with at the reporting date.



At 31 December 2018

**26 INTEREST BEARING LOANS AND BORROWINGS (continued)**

26.3 Following are the combined aggregate amounts of future maturities of the principal amounts of the term loans:

	2018	2017
	SR'000	SR'000
2018	-	122,607
2019	139,305	46,239
2020	41,479	41,479
2021	25,510	25,510
2022	13,286	13,286
2023	5,143	5,143
	<b>224,723</b>	<b>254,264</b>

26.4 Following are the major categories of the borrowings of the parent company and its subsidiaries at the reporting date:

	<i>Red Sea International Company</i>	<i>Red Sea Housing Services Company Dubai FZE</i>	<i>Premier Paints Company</i>	<i>Total</i>
	SR ' 000			
Conventional borrowings	111,918	-	10,500	122,418
Murabaha	16,019	-	-	16,019
Tawarruq	86,286	-	-	86,286
<b>At 31 December 2018</b>	<b>214,223</b>	<b>-</b>	<b>10,500</b>	<b>224,723</b>
Conventional borrowings	154,077	9,100	9,000	172,177
Murabaha	59,072	-	-	59,072
Tawarruq	23,015	-	-	23,015
<b>At 31 December 2017</b>	<b>236,164</b>	<b>9,100</b>	<b>9,000</b>	<b>254,264</b>

**27 EMPLOYEES' DEFINED BENEFIT LIABILITIES**

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its defined benefit obligations at 31 December 2018 in respect of employees' end-of-service benefits payable under relevant local regulations and contractual arrangements. The main actuarial assumptions used to calculate the defined unfunded benefit obligation are as follows:

	2018	2017
Discount rate	3.5%	3.4%
Expected rate of salary increase	4.0%	4.0%
Retirement period	60 years	60 years

27.1 The break up of net benefit costs charged to consolidated statement of profit or loss is as follows:

	2018	2017
	SR'000	SR'000
Current service cost	3,248	3,361
Interest cost on benefit obligation	1,204	1,358
<b>Net benefit expense</b>	<b>4,452</b>	<b>4,719</b>

At 31 December 2018

**27 EMPLOYEES' DEFINED BENEFIT LIABILITIES (continued)**

27.2 Changes in the present value of defined unfunded benefit obligation is as follows:

	2018 SR'000	2017 SR'000
At the beginning of the year	41,302	54,778
Net benefit expense	4,452	4,719
Benefits paid	(11,770)	(22,250)
Remeasurement loss on employees' defined benefit liabilities	4,041	4,055
At the end of the year	38,025	41,302

27.3 Remeasurement loss on employees' defined benefit liabilities arose due to the followings:

	2018 SR'000	2017 SR'000
Actuarial gains arising from changes in demographic assumptions	911	-
Actuarial losses arising from changes in financial assumptions	(160)	(408)
Experience adjustments	3,290	4,463
At the end of the year	4,041	4,055

27.4 Breakup of the employee benefit obligations by geographic segment

	Saudi Arabia	UAE	Ghana	Papua New Guinea	Algeria	Malaysia	Other	Total
2018	20,993	9,028	5,460	1,526	269	504	245	38,025
2017	20,111	11,237	3,818	1,338	207	1,278	3,313	41,302

27.5 The quantitative sensitivity analysis for significant assumptions as at the reporting date is as follows:

	Increase/ (decrease)	2018 SR '000	2017 SR '000
Discount rate	1.00% (1.00%)	(1,819) 2,041	(1,562) 1,696
Expected rate of salary increase	1.00% (1.00%)	1,936 (1,755)	1,434 (1,347)
Retirement age	1 Year (1 Year)	(1,797) 1,818	(2,276) 2,346

The sensitivity analysis 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. The sensitivity analysis are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefits obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

27.6 The following payments are expected contributions to the defined benefit plan in future years:

	2018 SR '000	2017 SR '000
Within the next 12 months (next annual reporting period)	6,062	8,163
Between 2 and 5 years	13,733	18,770
Over 5 years	27,325	20,795
Total expected payments	47,120	47,728

The average duration of the defined benefit plan obligation at the end of the reporting period is 4.4 years (31 December 2017: 4.4 years).

At 31 December 2018

**27 EMPLOYEES' DEFINED BENEFIT LIABILITIES (continued)**

During the year, the Group have contributed SR 1.6 million (2017: SR 1.7 million) into the general organisation of social insurance ("GOSI") for its Saudi national staff.

**28 OTHER NON CURRENT LIABILITIES**

	2018 SR'000	2017 SR'000
Provision for decommissioning cost (30.1)	16,657	17,850
Payable against acquisition of subsidiary (note 30)	-	3,582
Others	-	43
	<b>16,657</b>	<b>21,475</b>

**29 TRADE PAYABLES**

	2018 SR'000	2017 SR'000
Trade accounts payables	60,153	47,714
Due to related parties (note 32)	606	606
	<b>60,759</b>	<b>48,320</b>

29.1 Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 30-45 day terms
- For terms and conditions with related parties, refer to Note 32.

**30 ACCRUALS AND OTHER LIABILITIES**

	2018 SR'000	2017 SR'000
Employee salaries and benefits	19,390	21,474
Accrual for project operation and catering costs	21,300	24,086
Payable against acquisition of a subsidiary	8,721	4,911
Provision for decommissioning costs (note 30.1)	9,971	18,059
Provision for assurance type warranties	947	3,200
Other accrued expenses	18,006	18,387
	<b>78,335</b>	<b>90,117</b>

30.1 Provision for decommissioning costs relates to liabilities for restoration work or land restoration required for dismantling of investment properties used to generate rental revenue. The expected dates for usage at the provision are spread in years 2018 through 2026. Movement in the provision for decommissioning costs was as follows:

	2018 SR'000	2017 SR'000
At the beginning of the year	35,909	37,037
Provision charged during the year	-	1,337
Unwinding of discount charge for the year	927	804
Amount used during the year	(10,208)	(3,269)
At the end of the year	26,628	35,909
Less: non-current portion (note 28)	(16,657)	(17,850)
	<b>9,971</b>	<b>18,059</b>

At 31 December 2018

**31 ZAKAT AND INCOME TAX**

The major components of zakat and income tax expense for the year ended 31 December 2018 and 2017 are:

*Consolidated statement of income*

	<b>2018</b>	<b>2017</b>
	<b>SR'000</b>	<b>SR'000</b>
Zakat	<b>10,850</b>	6,493
Income taxes	<b>969</b>	6,009
	<b>11,819</b>	12,502

31.1 Movement in zakat and income tax for the year was as follows:

	<i>Zakat</i>	<i>Current tax</i>	<i>Total</i>	<i>Zakat</i>	<i>Current tax</i>	<i>Total</i>
	<b>31 December 2018</b>			<b>31 December 2017</b>		
	<b>SR '000</b>			<b>SR '000</b>		
At the beginning of the year	<b>16,275</b>	<b>4,239</b>	<b>20,514</b>	17,961	2,449	20,410
Current year provision	<b>10,850</b>	<b>969</b>	<b>11,819</b>	6,493	6,009	12,502
Payments during the year	<b>(5,550)</b>	<b>(254)</b>	<b>(5,804)</b>	(8,179)	(4,219)	(12,398)
<b>At 31 December</b>	<b>21,575</b>	<b>4,954</b>	<b>26,529</b>	16,275	4,239	20,514

**31.2 Zakat**

(i) Zakat charge for the year consist of :

	<b>2018</b>	<b>2017</b>
	<b>SR'000</b>	<b>SR'000</b>
Charge for the year	<b>10,850</b>	6,493

The provision for the year 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.

The significant components of the Company's zakat base are comprised of shareholders' equity at the beginning of the year, provisions at the beginning of the year, long-term borrowings and adjusted net profit or loss, less deductions for the net book value of property, plant and equipment and investment properties and certain other items.

**(ii) Status of assessments**

The status of assessments of the Company including its wholly owned subsidiaries and major partially owned subsidiaries are as follows:

**a) The Company and its wholly owned subsidiaries**

The zakat assessments of the Company and its wholly owned Saudi subsidiaries as a whole have been agreed with the General Authority of Zakat and Tax ("the GAZT") up to 2006. The zakat declarations until years 2017 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT from 2011 through 2017.

During the year ended 31 December 2018, the GAZT, has issued additional assessments for the years 2007 to 2010 amounting to SR 10.8 million. The Group has filed an appeal against the GAZT assessments for the said period, which is still under review by the GAZT. However, the Group maintains sufficient provision in the books to account for any liability arising upon the ultimate resolution of these additional assessments.

At 31 December 2018

**31 ZAKAT AND INCOME TAX (continued)****31.2 Zakat (continued)****b) Partially owned subsidiaries***Premier Paints Company*

During the year, PPC received additional zakat assessment from the GAZT for the years 1999 to 2014 amounting to SR 2.7 million. The Company has filed an appeal against the assessment, which is pending with the relevant authority. The Company is in the process of reviewing the nature and validity of the additional claims. However, the Company maintains sufficient provision in the books to account for any liability arising upon the ultimate resolution of these additional assessments.

Zakat base and the income tax provision have been computed based on the Company's understanding of zakat and income tax regulations prevailing in the Kingdom of Saudi Arabia. The zakat and income tax regulations in Saudi Arabia are subject to different interpretations and the assessments to be raised by the GAZT could be different from the declarations filed by the Company.

**31.3 Income Tax**

(i) The income tax charge for the year consist of:

	2018 SR '000	2017 SR '000
Current year provision	969	2,635
Adjustment related to prior year	-	3,374
	<b>969</b>	<b>6,009</b>

Income tax provision is provided for in accordance with fiscal authorities in which the Group's subsidiaries operate outside the Kingdom of Saudi Arabia.

(ii) Reconciliation of income tax expense

	2018 SR '000	2017 SR '000
Income tax at statutory tax rate of 20%	1,170	11,447
Adjustments for the foreign income tax	(201)	(5,438)
Income tax expense	<b>969</b>	<b>6,009</b>

**(iii) Status of assessments**

The status of assessments of the major foreign subsidiaries are as follows:

*Red Sea Housing Services (Ghana) Limited ("RSG")*

Income tax assessments have been agreed with the Ghana Revenue Authority ("the GRA") up to the year ended 31 December 2010. In prior years, the company received tax assessment for years from 2011 to 2016 amounting to SR 4.7 million. The company has filed an appeal against this amount and settled SR 1.5 million during the current year. The income tax return for year ended 31 December 2017 have been filed with the GRA. However, the final assessment has not yet been raised.

*Red Sea Housing Malaysia Sdn. Bhd. ("RSHM")*

Income tax assessments have been agreed with the Inland revenue board ("the IRB") up to the year ended 31 December 2014. The income tax returns for the years ended 31 December 2015 through 2017 have been filed with the IRB. However, the final assessments have not yet been raised by the IRB.

At 31 December 2018

**31 ZAKAT AND INCOME TAX (continued)****31.3 Income Tax (continued)***(iii) Status of assessments (continued)**Red Sea Housing Company PNG Limited ("RSHP")*

The income tax returns for the years ended 31 December 2017 have been filed with the Internal Revenue Commission ("IRC"). However, the final assessment has not yet been raised by the IRC.

**31.4 Deferred Tax**

The Group has not recognized net deferred tax asset of SR 26.5 million (2017: SR 27.7 million) due to uncertainty over recoverability of such deferred tax asset in the near future.

**32 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.

Related parties principally comprise at Dabbagh Group Holding Company Limited and its affiliated entities (collectively the "Dabbagh Group"), majority shareholder of the Company, and the Group's minority shareholders and their affiliated entities.

The Group in the normal course of business carries out transactions with various related parties. Amounts due from/to related parties are shown under accounts receivable and account payable, respectively. Pricing policies and terms of these transactions are approved by the Company's management. Amounts due from and due to related parties are unsecured and settled in cash between the parties.

32.1 Transactions with related parties' included in the consolidated statement of profit and loss is as follows:

	<b>2018</b>	<b>2017</b>
<b>Nature of transaction</b>	<b>SR'000</b>	<b>SR'000</b>
Sale of investment	-	1,000
Payment for land rentals	<b>883</b>	883
Payment against insurance premium	<b>167</b>	210
	<b>1,050</b>	<b>2,093</b>

32.2 The breakdown of the amounts due from and due to related parties are as follows:

*Amount due from related parties represents the following*

	<b>2018</b>	<b>2017</b>
	<b>SR'000</b>	<b>SR'000</b>
Petromin Corporation (note 19)	<b>15,374</b>	15,374
Al Tanmiah Commercial Group Company (note 20)	-	1,000
	<b>15,374</b>	<b>16,374</b>

*Amount due to related party represents the following*

	<b>2018</b>	<b>2017</b>
	<b>SR'000</b>	<b>SR'000</b>
Dabbagh Group Holding Company Limited (note 29)	<b>606</b>	606

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2018

**32 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

Remuneration and compensation for members of Board of Directors and Executives are as follows:

	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>SR'000</b>	<b>SR'000</b>	<b>SR'000</b>	<b>SR'000</b>
	<i>Members of Board of Directors</i>		<i>Key Management</i>	
Short-term employee benefits	-	-	<b>6,212</b>	6,855
End-of service employee benefits	-	-	<b>226</b>	245
Board of directors' fees	<b>629</b>	1,900	-	-
	<b>629</b>	1,900	<b>6,438</b>	7,100

**33 CONTINGENCIES AND COMMITMENTS**

As at 31 December 2018, the Group had capital commitments of SR 3.7 million (2017: SR 19.4 million). Also at December 31 the Group had the following outstanding commitments and contingencies:

	<b>2018</b>	<b>2017</b>
	<b>SR'000</b>	<b>SR'000</b>
Letter of guarantee	<b>35,886</b>	59,239
Letter of credit	<b>92</b>	246

**34 OPERATING LEASES**

The Group has various operating leases for its offices, warehouses and production facilities. Rental expenses for the year ended 31 December 2018 amounted to SR 23.5 million (2017: SR 22.8 million).

Future rental commitments under these operating leases at the reporting date are as follows:

	<b>2018</b>	<b>2017</b>
	<b>SR'000</b>	<b>SR'000</b>
Within one year	<b>9,309</b>	5,800
After one year but not more than five years	<b>23,166</b>	6,100
More than five years	<b>4,247</b>	3,300
	<b>36,722</b>	15,200

The Group leased out various residential houses under operating lease agreements. Rental income from such leases for the year ended 31 December 2018 amounted to SR 266.7 million (2017: SR 316.2 million)

Operating leases for rental income with terms expiring within one year and in excess of one year are as follows:

	<b>2018</b>	<b>2017</b>
	<b>SR'000</b>	<b>SR'000</b>
Within one year	<b>176,000</b>	201,000
After one year but not more than five years	<b>52,800</b>	70,000
	<b>228,800</b>	271,000

At 31 December 2018

**35 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 years ended 31 December 2018 and 2017, respectively:

**Business segments**

	<b>31 December 2018</b>				<b>31 December 2017</b>			
	<i>Non-concrete residential and commercial buildings</i>	<i>Rentals from investment properties</i>	<i>Paints and related services</i>	<i>Total segments</i>	<i>Non-concrete residential and commercial buildings</i>	<i>Rentals from investment properties</i>	<i>Paints and related services</i>	<i>Total segments</i>
	<b>SR '000</b>				<b>SR '000</b>			
<b>Revenue:</b>								
Total segment revenue	<b>383,290</b>	<b>266,664</b>	<b>47,001</b>	<b>696,955</b>	409,795	316,193	49,339	775,327
Intersegment revenue elimination	-	-	(1,278)	(1,278)	-	-	(2,207)	(2,207)
<b>Revenue from external customers</b>	<b>383,290</b>	<b>266,664</b>	<b>45,723</b>	<b>695,677</b>	409,795	316,193	47,132	773,120
<b>Timing of revenue recognition:</b>								
At point in time	<b>346,228</b>	-	<b>45,723</b>	<b>391,951</b>	331,210	-	47,132	378,342
Over time	<b>37,062</b>	<b>266,664</b>	-	<b>303,726</b>	78,585	316,193	-	394,778
	<b>383,290</b>	<b>266,664</b>	<b>45,723</b>	<b>695,677</b>	409,795	316,193	47,132	773,120
(Loss)/profits before finance cost, finance income, depreciation & amortization and zakat and income tax	<b>(58,604)</b>	<b>84,619</b>	<b>(616)</b>	<b>25,399</b>	(28,995)	92,083	(2,919)	60,169
Finance cost	<b>(3,825)</b>	<b>(3,853)</b>	<b>(5,637)</b>	<b>(13,315)</b>	(3,919)	(3,811)	(4,295)	(12,025)
Finance income	<b>1,057</b>	-	-	<b>1,057</b>	304	-	-	304
Depreciation & amortisation	<b>(21,899)</b>	<b>(65,022)</b>	<b>(5,093)</b>	<b>(92,014)</b>	(21,462)	(79,124)	(5,097)	(105,683)
(Loss)/profit before zakat and income tax	<b>(83,271)</b>	<b>15,744</b>	<b>(11,346)</b>	<b>(78,873)</b>	(54,072)	9,148	(12,311)	(57,235)
Zakat	<b>(679)</b>	<b>(290)</b>	-	<b>(969)</b>	(3,080)	(2,995)	(418)	(6,493)
Income tax	<b>(4,408)</b>	<b>(4,442)</b>	<b>(2,000)</b>	<b>(10,850)</b>	(2,653)	(3,356)	-	(6,009)
<b>Segment (loss)/profit</b>	<b>(88,358)</b>	<b>11,012</b>	<b>(13,346)</b>	<b>(90,692)</b>	(59,805)	2,797	(12,729)	(69,737)



At 31 December 2018

### 35 SEGMENTAL INFORMATION (continued)

The following table presents assets and liabilities information for the Group's operating segments at the reporting date:

	At 31 December 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
	SR '000				SR '000			
Total assets	541,295	545,270	75,545	1,162,110	622,436	605,085	75,496	1,303,017
Total liabilities	378,888	59,349	26,049	464,286	257,155	219,284	17,369	493,808

During the year ended 31 December 2018, approximately 44% of the total revenues from non-concrete residential and commercial buildings segment were derived from 3 customers (2017: approximately 38% from 3 customers). During the year, approximately 61% of the total revenues from rental segment were derived from 2 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 year, which is based on the locations of the customers.

	31 December 2018							
	Saudi Arabia	UAE	Ghana	Papua New Guinea	Algeria	Malaysia	Others	Total
	SR '000							
Total segment revenue	453,708	121,662	61,910	24,936	9,081	37,061	6,758	715,116
Intersegment revenue elimination	(1,277)	(15,108)	(3,054)	-	-	-	-	(19,439)
<b>Revenue from external customers</b>	<b>452,431</b>	<b>106,554</b>	<b>58,856</b>	<b>24,936</b>	<b>9,081</b>	<b>37,061</b>	<b>6,758</b>	<b>695,677</b>
Segmental profits/(loss) for the year	<b>1,245</b>	<b>(6,799)</b>	<b>(28,465)</b>	<b>(2,835)</b>	<b>(9,459)</b>	<b>(34,897)</b>	<b>(4,532)</b>	<b>(85,742)</b>
	31 December 2017							
	Saudi Arabia	UAE	Ghana	Papua New Guinea	Algeria	Malaysia	Others	Total
	SR '000							
Total segment revenue	516,793	94,809	39,879	24,670	25,797	78,585	16,356	796,889
Intersegment revenue elimination	(2,207)	(16,266)	(5,296)	-	-	-	-	(23,769)
<b>Revenue from external customers</b>	<b>514,586</b>	<b>78,543</b>	<b>34,583</b>	<b>24,670</b>	<b>25,797</b>	<b>78,585</b>	<b>16,356</b>	<b>773,120</b>
Segmental profits/(loss) for the year	<b>29,304</b>	<b>(18,761)</b>	<b>(30,032)</b>	<b>(3,825)</b>	<b>(2,993)</b>	<b>(35,926)</b>	<b>(3,071)</b>	<b>(65,304)</b>

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35 SEGMENTAL INFORMATION (continued)

	31 December 2018							
	Saudi Arabia	UAE	Ghana	Papua New Guinea	Algeria	Malaysia	Others	Total
	SR '000							
<b>Non-current assets</b>								
Property, plant and equipment	77,262	38,649	28,194	8,601	605	4,496	1,314	159,121
Investment properties	376,683	2,143	-	1,217	17,402	-	1,877	399,322
Intangible assets	40,313	422	60	67	19	160	-	41,041
<b>Total assets and liabilities</b>								
Total assets	797,037	159,785	106,975	51,156	28,652	13,250	5,255	1,162,110
Total liabilities	318,960	59,766	12,367	6,641	3,096	62,112	1,344	464,286
	31 December 2017							
	Saudi Arabia	UAE	Ghana	Papua New Guinea	Algeria	Malaysia	Others	Total
	SR '000							
<b>Non-current assets</b>								
Property, plant and equipment	80,290	43,533	38,088	11,058	1,039	5,170	3,606	182,784
Investment properties	427,150	738	-	1,423	23,954	-	9,758	463,023
Intangible assets	45,076	285	86	122	27	207	-	45,803
<b>Total assets and liabilities</b>								
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

The Group management, after careful consideration of the impairment indicators, has tested the impairment for cash generating units (CGUs). The recoverable amounts of the CGUs (Papua New Guinea and Malaysia) have been determined based on a value in use calculation using the cash flow projections based on financial budgets approved by the management for 2019 and assuming an average annual growth rate 10% and 5% for Papua New Guinea and Malaysia respectively, for the next five years. Thereafter, the growth rate estimated to be the current short-term growth rate for the pre-fabricated and modular industry. As a result of the exercise, the management has concluded that no impairment provision is considered necessary in the consolidated statement of profit or loss.

**Key assumptions used in value in use calculations**

The calculation of value in use is sensitive to the following assumptions:

- Revenue;
- Earning Before Interest, Tax, Depreciation and Amortisation ("EBITDA");
- Discount rates; and
- Growth rate used to extrapolate cash flows beyond the 5 year period.

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**36 FINANCIAL RISK MANAGEMENT**

The Group's principal financial liabilities comprise loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include trade receivables, and cash and short-term deposits that derive directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management regularly review the policies and procedures to ensure that all the financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Group does not engage into any hedging activities. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

**36.1 Market 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 prices. Market risk comprises three types of risk: commission rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings and short-term deposits.

**36.1 (a) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The interest rate risk is partially mitigated by interest income, which Company earns at floating interest rates from its bank deposits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, the Group's profit/loss before tax is affected through the impact on floating rate borrowings, as follows:

	<i>Increase/ (Decrease) in basis points</i>	<i>Effect on profit/(loss) before tax SR '000</i>
2018	<b>-100</b>	<b>(1,342)</b>
	<b>+100</b>	<b>1,342</b>
2017	<b>-100</b>	<b>(2,137)</b>
	<b>+100</b>	<b>2,137</b>

**36.1 (b) Price risk**

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group's financial assets and liabilities are not exposed to price risk.

**36.1 (c) Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries and associates. The Group did not undertake significant transactions in currencies other than Saudi Riyals (SR), US Dollars (US \$), UAE Dirhams ("AED"), Australian Dollars ("AUD"), Papua New Guinea Kina ("PGK"), Omani Riyals ("OMR") and Malaysia Ringgit ("MYR") during the year. As SR is pegged to US \$ and AED, the management of the Group believes that the currency risk for financial instruments denominated in US \$ and AED is not significant.

The Group is exposed to currency risk on transactions and balances in AUD, PGK, OMR and MYR. The Group manages currency risk exposure to the above currencies by continuously monitoring the currency fluctuations.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Group also has investments in foreign subsidiaries, whose net assets are exposed to currency translation risk. Currently, such exposures are mainly related to exchange rate movements between SR against PGK, AUD, OMR, MYR and certain other currencies are recorded as a separate component of shareholders' equity in the accompanying consolidated financial statements.

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**36 FINANCIAL RISK MANAGEMENT (continued)****36.1 Market risk (continued)****36.1 (c) Foreign currency risk**

The following tables demonstrate the sensitivity to a reasonably possible change in the exchange rates of these currencies, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

	<b>2018</b>		<b>2017</b>	
	<i>Change in currency rate</i>	<i>Effect on equity</i>	<i>Change in currency rate</i>	<i>Effect on equity</i>
	<b>%</b>	<b>SR'000</b>	<b>%</b>	<b>SR'000</b>
<b>Currency</b>				
PGK	10	4,452	10	5,221
OMR	10	281	10	1,568
MYR	10	3,816	10	1,703
AUD	10	2	10	4

**36.2 Credit Risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group is exposed to credit risk on its bank balances, short-term deposits, accounts receivables and some other receivables as follows:

	<b>2018</b>	<b>2017</b>
	<b>SR'000</b>	<b>SR'000</b>
Bank balances	<b>41,539</b>	64,510
Short-term deposits	<b>44,614</b>	20,000
Accounts receivable	<b>273,822</b>	262,793
Other receivables	<b>14,857</b>	6,849
	<b>374,832</b>	354,152

The Group seeks to manage its credit risk with respect to customers by setting credit periods for individual customers and monitoring outstanding receivables.

With respect to credit risks arising from the other financial assets of the Company, including bank balances and other receivables, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these assets.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables and contract assets are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance obtained from reputable banks and other financial institutions. At 31 December 2018, the Group had 7 customers (2017: 8) that owed it more than SR 17 million each and accounted for approximately 60% (2017: 67%) of all the receivables and contract assets outstanding.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed below. The Group does not hold collateral as security. The letters of credit and other forms of credit insurance are considered integral part of trade receivables and considered in the calculation of impairment. The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

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**36 FINANCIAL RISK MANAGEMENT (continued)****36.2 Credit Risk (continued)**

Set out below is the information about the credit risk exposure at 31 December 2018 on the Group's accounts receivables:

*31 December 2018:*

	<i>Trade receivables</i>					<i>Total</i>
	<i>Current</i>	<i>&lt; 30 days</i>	<i>30 - 60 days</i>	<i>61 - 90 days</i>	<i>&lt; 91 days</i>	
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Trade receivable	163,680	27,454	39,250	21,060	102,261	353,705

Based on a provision matrix, the Group's expected credit losses at 31 December 2018 against its trade receivables exposed to credit risk amounted to SR 79 million. Accordingly, in 2018, the Group recognised an amount of SR 23.6 million as provision for expected credit losses in its statement of profits or loss and SR 13 million in opening retained earning on the adoption of IFRS 9.

At 31 December 2017, impairment analysis of the Group's trade receivable was performed under IAS 39 on an individual basis for major customers and trade receivables at nominal value of SR 44 million were impaired. The ageing analysis of gross accounts receivables as at 31 December 2017 is as follows:

	<i>Trade receivables</i>					<i>Total</i>
	<i>Current</i>	<i>&lt; 30 days</i>	<i>30 - 60 days</i>	<i>61 - 90 days</i>	<i>&lt; 91 days</i>	
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Trade receivable	176,775	23,912	10,089	6,700	89,662	307,138

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis, and may be updated throughout the year subject to approval of the Group's Finance Committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

**36.3 Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The cash flows, funding requirements and liquidity of Group companies are monitored on a centralised basis, under the control of the Group Treasury. The objective of this centralised system is to optimise the efficiency and effectiveness of the management of the Group's capital resources. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank borrowings. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group currently has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations.

**36.3 (a) Excessive risk concentration**

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

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**36 FINANCIAL RISK MANAGEMENT (continued)****36.3 Liquidity risk****36.3 (a) Excessive risk concentration (continued)**

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

**Year ended 31 December 2018**

	<i>Less than 1 year</i>	<i>1 to 5 years</i>	<i>&gt; 5 years</i>	<i>Total</i>
	<i>SR '000</i>			
Interest bearing loans and borrowings	144,193	91,126	-	235,319
Trade and other payables	60,759	-	-	60,759
Other liabilities	8,721	-	-	8,721
	<b>213,673</b>	<b>91,126</b>	<b>-</b>	<b>304,799</b>

**Year ended 31 December 2017**

	<i>Less than 1 year</i>	<i>1 to 5 years</i>	<i>&gt; 5 years</i>	<i>Total</i>
	<i>SR '000</i>			
Interest bearing loans and borrowings	128,834	134,961	5,198	268,993
Trade and other payables	48,320	-	-	48,320
Other liabilities	5,517	3,750	-	9,267
	<b>182,671</b>	<b>138,711</b>	<b>5,198</b>	<b>326,580</b>

**36.4 Changes in liabilities arising from financing activities**

	<i>Non-current portion of Interest bearing loans and borrowings</i>	<i>Current portion of interest bearing loans and borrowings</i>	<i>Short-term loans</i>
	<i>SR '000</i>		
At 1 January 2017	109,698	81,635	99,943
Cash flows	39,744	(17,413)	(59,343)
Reclassifications	(17,785)	17,785	-
<b>31 December 2017</b>	<b>131,657</b>	<b>82,007</b>	<b>40,600</b>
Cash flows	(45,952)	(33,489)	49,900
Reclassifications	(287)	287	-
<b>31 December 2018</b>	<b>85,418</b>	<b>48,805</b>	<b>90,500</b>

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### 37 CAPITAL MANAGEMENT

For the purpose of the Group's capital management, capital includes share capital, statutory reserves, and all other equity reserves attributable to the equity holders of the parent Company. The primary objective of the Group's capital management is to maximise the shareholder value.

The Group 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 Group may adjust the dividend payment to shareholders, return capital to shareholder.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

- a) "Total gearing ratio", determined as "total liabilities (current and non-current) divided by tangible net worth (equity as shown in the accompanying consolidated statement of financial position, including non-controlling interests less intangible assets)".
- b) "Leverage ratio", determined as "total borrowings (current and non-current) divided by equity (as shown in the accompanying consolidated statement of financial position, including non-controlling interests)".

During the year, the Group's strategy, which remained unchanged from last year, was to maintain total gearing ratio within 0.5 to 3 and leverage ratio within 0.2 to 1 (2017: total gearing ratio within 0.5 to 3 and leverage ratio within 0.2 to 1.)

### 38 FAIR VALUES OF FINANCIAL INSTRUMENTS

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- 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

Financial assets consist of cash and cash equivalents, accounts receivable, advances to suppliers, contract assets and other current assets which are measured at amortized cost. Financial liabilities consist of term loans, short term loan, advances from customers, accounts payable and some other current liabilities. Such assets and liabilities are subsequently measured using effective interest rate method. The management assessed that the fair values 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.

The following methods and assumptions were used to estimate the fair values:

- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the estimated losses of these receivables.
- The fair values of the Group's interest-bearing borrowings and loans are determined by using the DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31 December 2018 was assessed to be insignificant.

### 39 SUBSEQUENT EVENTS

In the opinion of management, there have been no significant subsequent events since the year ended 31 December 2018 that would have a material impact on the financial position of the Group as reflected in these consolidated financial statements.