

**Al Moammar Information Systems  
Company  
(A Saudi Closed Joint Stock Company)**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2016**



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**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
AL MOAMMAR INFORMATION SYSTEMS COMPANY  
(A SAUDI CLOSED JOINT STOCK COMPANY)**

**Scope of audit**

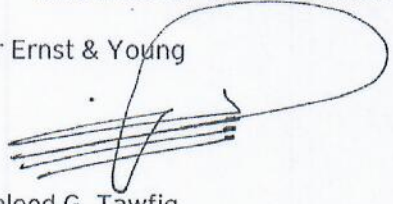
We have audited the accompanying balance sheet of Al Moammar Information Systems Company - a Saudi Closed Joint Stock Company (the "Company") as at 31 December 2016 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the requirements of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

**Unqualified opinion**

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

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

for Ernst & Young

  
Waleed G. Tawfiq  
Certified Public Accountant  
Registration No. 437



Riyadh: 27 Jumada Al-Thani 1438H  
(26 March 2017)



Al Moammar Information Systems Company  
(A Saudi Closed Joint Stock Company)

BALANCE SHEET

As at 31 December 2016

	Note	2016 SR	2015 SR
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and bank balances	3	50,686,661	44,561,496
Accounts receivable	4	470,389,719	475,685,707
Prepayments and other receivables	5	16,719,735	11,401,713
Investments held for trading	6	-	43,634
Due from an associate	17	787,193	780,381
<b>TOTAL CURRENT ASSETS</b>		<b>538,583,308</b>	<b>532,472,931</b>
<b>NON-CURRENT ASSETS</b>			
Available for sale investments	7	43,850	-
Property and equipment	8	890,750	1,058,469
Investments in associates	9	2,585,468	3,337,820
Intangible assets	10	765,205	882,157
<b>TOTAL NON-CURRENT ASSETS</b>		<b>4,285,273</b>	<b>5,278,446</b>
<b>TOTAL ASSETS</b>		<b>542,868,581</b>	<b>537,751,377</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Short term loans	12	162,182,837	215,241,688
Accrued expenses and other liabilities	11	98,727,996	58,618,142
Accounts payable		92,223,871	85,606,581
Zakat payable	13	7,034,777	7,044,453
<b>TOTAL CURRENT LIABILITIES</b>		<b>360,169,481</b>	<b>366,510,864</b>
<b>NON-CURRENT LIABILITY</b>			
Employees' terminal benefits	14	11,908,119	10,912,300
<b>TOTAL LIABILITIES</b>		<b>372,077,600</b>	<b>377,423,164</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	15	50,000,000	50,000,000
Statutory reserve		25,000,000	25,000,000
Fair value reserve	7	216	-
Retained earnings		95,790,765	85,328,213
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>170,790,981</b>	<b>160,328,213</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>542,868,581</b>	<b>537,751,377</b>

The attached notes 1 to 26 form part of these financial statements.

Al Moammar Information Systems Company  
(A Saudi Closed Joint Stock Company)

STATEMENT OF INCOME

For the year ended 31 December 2016

	Note	2016 SR	2015 SR
Sales		654,023,543	716,805,490
Cost of sales		(555,560,760)	(619,934,523)
<b>GROSS PROFIT</b>		<b>98,462,783</b>	<b>96,870,967</b>
<b>EXPENSES</b>			
General and administration	18	(30,486,743)	(30,640,038)
Selling and distribution	19	(12,530,629)	(12,387,153)
<b>INCOME FROM MAIN OPERATIONS</b>		<b>55,445,411</b>	<b>53,843,776</b>
Financial charges		(14,460,966)	(9,081,045)
Other income, net		1,172,930	634,274
<b>INCOME BEFORE SHARE IN RESULTS OF ASSOCIATES AND ZAKAT</b>		<b>42,157,375</b>	<b>45,397,005</b>
Share in results of associates	9	(752,352)	392,240
<b>INCOME BEFORE ZAKAT</b>		<b>41,405,023</b>	<b>45,789,245</b>
Zakat	13	(5,321,318)	(4,882,439)
<b>NET INCOME FOR THE YEAR</b>		<b>36,083,705</b>	<b>40,906,806</b>
<b>EARNINGS PER SHARE</b>	20		
From main operations		11.09	10.77
From net income		7.22	8.18
Weighted average number of shares outstanding		5,000,000	5,000,000

The attached notes 1 to 26 form part of these financial statements.



Al Moammar Information Systems Company  
(A Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 SR	2015 SR
<b>OPERATING ACTIVITIES</b>			
Income before zakat		41,405,023	45,789,245
Adjustments for:			
Depreciation of property and equipment	8	357,565	378,199
Amortisation	10	346,059	322,440
Share in results of associates	11	752,352	(392,240)
Gain on sale of property and equipment		(7,000)	(5,228)
Unrealized gain on investments held for trading		-	(41,007)
Provision for employees' terminal benefits	14	3,831,144	3,266,059
Provision for doubtful receivables	4	399,161	644,140
Provision for doubtful advances to suppliers	5	121,745	-
		47,206,049	49,961,608
Changes in operating assets and liabilities:			
Accounts receivable		4,896,827	(160,142,139)
Prepayments and other receivables		(5,888,240)	(1,133,853)
Due from an associate		(6,812)	(39,348)
Accounts payable		6,617,290	41,209,013
Accrued expenses and other liabilities		40,109,854	2,259,402
Cash from (used in) operations		92,934,968	(67,885,317)
Employees terminal benefits paid	14	(2,835,325)	(1,282,094)
Zakat paid	13	(4,882,521)	(3,924,410)
Net cash from (used in) operating activities		85,217,122	(73,091,821)
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	8	(189,846)	(616,426)
Purchase of intangible assets	10	(229,107)	(801,560)
Proceeds from disposal of property and equipment		7,000	5,228
Dividends received from associates	9	-	562,500
Net cash used in investing activities		(411,953)	(850,258)
<b>FINANCING ACTIVITIES</b>			
Net (repayments) proceeds from short term loans		(53,058,851)	65,672,983
Dividends paid	16	(25,621,153)	(25,318,295)
Net cash (used in) from financing activity		(78,680,004)	40,354,688
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		6,125,165	(33,587,391)
Cash and cash equivalents at the beginning of the year		44,561,496	78,148,887
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		50,686,661	44,561,496

The attached notes 1 to 26 form part of these financial statements

Al Moammar Information Systems Company  
(A Saudi Closed Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2016

	<i>Capital SR</i>	<i>Statutory reserve SR</i>	<i>Fair value reserve SR</i>	<i>Retained earnings SR</i>	<i>Total SR</i>
Balance at 1 January 2015	50,000,000	25,000,000	-	69,739,702	144,739,702
Net income for the year	-	-	-	40,906,806	40,906,806
Dividends (note 16)	-	-	-	(25,318,295)	(25,318,295)
Balance at 31 December 2015	50,000,000	25,000,000	-	85,328,213	160,328,213
Net income for the year	-	-	-	36,083,705	36,083,705
Dividends (note 16)	-	-	-	(25,621,153)	(25,621,153)
Unrealized gain on AFS (note 7)	-	-	216	-	216
Balance at 31 December 2016	<u>50,000,000</u>	<u>25,000,000</u>	<u>216</u>	<u>95,790,765</u>	<u>170,790,981</u>

The attached notes 1 to 26 form part of these financial statements



Al Moammar Information Systems Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENT

At 31 December 2016

1. ACTIVITIES

Al Moammar Information Systems Company (the "Company") is a Saudi Closed Joint Stock Company registered in Riyadh under Commercial Registration numbered 1010063470 dated 10 Muharram 1407H (corresponding to 14 September 1986).

The address of the Company's registered office is as follows:  
Pearl Centre, King Abdulaziz road,  
P.O.Box 16116  
Riyadh 11464  
Kingdom of Saudi Arabia

The Company is registered in the Kingdom of Saudi Arabia with the following branches:

<i>Branch Commercial</i>	<i>Date</i>	<i>Location</i>
<i>Registration number</i>		
4030097824	11 Ramadan 1401H	Jeddah
2051011413	12 Safar 1406H	Al-Khobar

The Company is engaged in wholesale, retail sale, installation, operation and maintenance of computers, electronic systems, wireless systems, electric and electronic works and installation, operation and maintenance of telecom technology.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

*Accounting convention*

The financial statements are prepared under the historical cost convention except for the measurement at fair value of investments in securities held for trading.

*Use of estimate*

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

*Cash and bank balances*

For the purposes of the statement of cash flow, cash and cash equivalents consists of bank balances, and investments that are readily convertible into known amounts of cash and have a maturity of three months or less when purchased.

*Short term bank deposits*

Short term bank deposits are readily convertible into known amounts of cash and have a maturity of more than three months but less than one year when purchased.

*Accounts receivable*

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

*Unbilled receivables*

Unbilled receivables comprise of the value of work executed by the Company during the year but not yet billed as at the year end. These amounts will be billed in the subsequent period.



Al Moammar Information Systems Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENT (continued)  
At 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Investments in associates*

The Company's investments in associates are accounted for using equity method of accounting. An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in an associate is carried in the balance sheet at cost adjusted by the changes in the Company's share of net assets of the associate. The statement of income reflects the share of the results of operation of the associates. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any change and discloses this, when applicable, in the statement of changes in shareholders' equity. Profits and losses resulting from transactions between the Company and the associates are eliminated to the extent of interest in an associate.

*Investments held for trading*

Investments which are bought with the intention of resale in the short term are classified as trading investments. Such investments are measured and carried in the balance sheet at fair value. Unrealized gains and losses are included in the income for the financial period.

*Available for sale investments*

These investments represents unquoted shares which are bought not with the intention of trading purposes and are stated at fair value. Changes in fair value are credited or charged to the statement of changes in shareholders' equity. Where there is an objective evidence that investments may be impaired, the estimated recoverable amount of those investments is determined and any impairment loss for the difference between the recoverable amount and the carrying amount is recognised in the statement of income. In assessing impairment, expected future cash flows and other factors are taken into consideration.

Where partial holdings are sold, the related carrying values of such investments are accounted for on a weighted average basis.

*Property and equipment*

Property and equipment are initially recorded at cost and are stated at cost less accumulated depreciation and any impairment in value.

Expenditure for repair and maintenance are charged to the income as incurred. Improvements that increase the value or materially extend the life of the related assets are capitalized.

Depreciation is charged to the statement of income over the estimated useful life of the applicable asset using straight line method. The estimated rate of depreciation of the principal classes of assets are as follows:

Equipment	20%
Motor vehicles	20%
Furniture and fixtures	20%

*Intangible assets*

Intangible asset is measured on initial recognition at cost. Following initial recognition, intangible asset with identifiable life is carried at cost less any accumulated amortization and any accumulated impairment losses and is amortized on a straight line basis over the useful economic life. Intangible asset represents accounting softwares purchased by the company. These are amortized using straight line method over a period of 5 years.

*Accounts payable and accruals*

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether or not billed to the Company.

*Provisions*

Provision is recognized when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.



Al Moammar Information Systems Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Loans and borrowings*

Loans and borrowings are recognized at the proceeds value received by the Company. Financial charges are recorded in the statement of income.

*Employees' terminal benefits*

Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the balance sheet date.

*Statutory reserve*

In accordance with the Saudi Arabian Regulations for Companies, the Company must transfer 10% of its annual net income to the statutory reserve until it reaches 50% of the share capital. This having been achieved, the Company decided to discontinue such transfer. The reserve is not available for distribution.

*Zakat*

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. The provision is charged to the statement of income.

*Revenue recognition*

Revenue on contracts, where the outcome can be estimated reliably, is recognized under the percentage-of-completion method by reference to the stage of completion of its contract activity. The stage of completion is measured by calculating the proportion of work performed to date as a proportion of the total work to be performed. The management of the Company consider the completion of the physical proportion of the contract work performed as the most appropriate measure of the percentage-of-completion in arriving at the profit to be recognized for the year.

Costs and estimated earnings in excess of billings on uncompleted contract represent revenues recognized in excess of amounts billed.

Billings in excess of cost and estimated earnings on uncompleted contracts represents billings issued in excess of revenues earned.

Revenues from sale of computer hardware and software licenses are recognized upon delivery. Revenue are shown net of returns, trade discounts and volume rebates.

Revenues from support service contracts are recognized on a pro-rata basis over the period of the contract.

*Foreign currencies*

*Foreign currency translations*

Financial statements of foreign operations are translated into Saudi Riyals using the exchange rate at each balance sheet date, for assets and liabilities, and the average exchange rate for each period for revenues, expenses, gains and losses. Components of equity, other than retained earnings, are translated at the rate ruling at the date of occurrence of each component. Translation adjustments are recorded as a separate component of shareholders' equity.

*Expenses*

Selling and distribution expenses are those that specifically relate to salesmen and sales department. All other expenses are allocated on a consistent basis to cost of sales and general and administration expenses in accordance with allocation factors determined as appropriate by the Company.

Al Moammar Information Systems Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Impairment and un-collectability of financial assets*

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the statement of income;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (c) For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

*Dividends*

Interim dividends are recorded as and when declared and approved by the Board of Directors. Annual final dividends are recognized as a liability at the time of their approval by the General Assembly.

*Segment reporting*

A segment is a distinguishable component of the Company that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments. Because the Company carries out most of its activities in the Kingdom of Saudi Arabia, reporting is provided by business segment only.

3. CASH AND BANK BALANCES

	2016 SR	2015 SR
Bank balances	47,986,661	41,861,496
Short term bank deposits	2,700,000	2,700,000
	<u>50,686,661</u>	<u>44,561,496</u>

4. ACCOUNTS RECEIVABLE

	2016 SR	2015 SR
Trade accounts receivable	331,275,836	330,607,291
Unbilled receivable	144,843,994	150,409,366
	<u>476,119,830</u>	<u>481,016,657</u>
Less :provision for doubtful debts	(5,730,111)	(5,330,950)
	<u>470,389,719</u>	<u>475,685,707</u>



Al Moammar Information Systems Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2016

4. ACCOUNTS RECEIVABLE (continued)

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

	Total	< 30 days	31 - 60 days	61 - 90 days	91 - 180 days	> 181 days
2016	325,545,725	110,350,362	33,304,705	14,289,495	61,200,639	106,400,524
2015	325,276,341	73,492,646	41,872,553	46,834,494	52,832,060	110,244,588

Unimpaired trade accounts receivable are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and vast majority are, therefore, unsecured.

Movements in the allowance for doubtful debts were as follows:

	2016 SR	2015 SR
At the beginning of the year	5,330,950	4,686,810
Provision for the year (note 18)	399,161	644,140
At the end of the year	5,730,111	5,330,950

Included in trade accounts receivable are amounts totalling SR 274,974,347 (2015: SR 259,263,655) due from Government and quasi Government institutions.

In addition, the five largest non Government customers account for 12% of the outstanding trade accounts receivable at 31 December 2016 (2015: 10%).

5. PREPAYMENTS AND OTHER RECEIVABLES

	2016 SR	2015 SR
Margin on letters of credit and guarantees	8,913,124	6,056,179
Advance to suppliers	4,244,347	2,283,310
Prepaid rent	1,511,002	1,575,305
Advances to employees	1,064,769	1,220,132
Prepaid insurance	339,068	293,083
Prepaid government fees	104,000	24,000
Other receivables	1,277,578	562,112
Less: provision for doubtful advances to suppliers	(734,153)	(612,408)
	16,719,735	11,401,713

Al Moammar Information Systems Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2016

6. INVESTMENTS HELD FOR TRADING

	2016 SR	2015 SR
Fair value:		
At the beginning of the year	43,634	2,627
Unrealised gains for the year	-	41,007
Transfer to available for sale investment	(43,634)	-
At the end of the year	-	43,634

These investments represent unquoted shares in a mutual fund.

7. AVAILABLE FOR SALE INVESTMENTS

	2016 SR	2015 SR
Fair value:		
At the beginning of the year	-	-
Transfer from investments held for trading	43,634	-
Unrealised gains for the year	216	-
At the end of the year	43,850	-

8. PROPERTY AND EQUIPMENT

	Equipment SR	Motor vehicles SR	Furniture and fixtures SR	Total 2016 SR	Total 2015 SR
<i>Cost:</i>					
At the beginning of the year	9,809,873	1,242,059	1,804,181	12,856,113	12,239,687
Additions	189,846	-	-	189,846	616,426
Disposals	-	(97,500)	-	(97,500)	-
At the end of the year	9,999,719	1,144,559	1,804,181	12,948,459	12,856,113
<i>Depreciation:</i>					
At the beginning of the year	9,106,143	1,242,049	1,449,452	11,797,644	11,419,445
Charge for the year (note 18)	265,212	-	92,353	357,565	378,199
Disposals	-	(97,500)	-	(97,500)	-
At the end of the year	9,371,355	1,144,549	1,541,805	12,057,709	11,797,644
<i>Net book amount:</i>					
At 31 December 2016	628,364	10	262,376	890,750	
At 31 December 2015	703,730	10	354,729		1,058,469



Al Moammar Information Systems Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENT (continued)  
At 31 December 2016

9. INVESTMENTS IN ASSOCIATES

	Percentage of ownership	2016 SR	2015 SR
Edarat Group SAL-Lebanon ("Edarat SAL")	50%	224,724	303,682
Edarat Co For Communication And Information Technology ("Edarat")	50%	1,081,237	525,799
Phoenicia Teech worldwide Inc.-Lebanon ("Phoenicia")	50%	1,279,507	2,508,339
		<u>2,585,468</u>	<u>3,337,820</u>

Movement in investment in associates is as follows:

	Edarat SAL SR	Phoenicia SR	Edarat SR	Total SR
January 1, 2015	291,010	2,328,539	888,531	3,508,080
Share in net income	12,671	179,801	199,768	392,240
Dividends received	-	-	(562,500)	(562,500)
December 31, 2015	<u>303,681</u>	<u>2,508,340</u>	<u>525,799</u>	<u>3,337,820</u>
Share in net (loss) income	(78,958)	(1,228,832)	555,438	(752,352)
December 31, 2016	<u>224,723</u>	<u>1,279,508</u>	<u>1,081,237</u>	<u>2,585,468</u>

10. INTANGIBLE ASSETS

Movement in intangible assets during the year was as follows:

	ERP software microsoft dynamics SR	Application development project SR	Other softwares SR	Total 2016 SR	Total 2015 SR
Cost:					
At the beginning of the year	712,471	4,532,387	1,371,784	6,616,642	5,815,082
Additions	-	-	229,107	229,107	801,560
At 31 December	<u>712,471</u>	<u>4,532,387</u>	<u>1,600,891</u>	<u>6,845,749</u>	<u>6,616,642</u>
Amortisation:					
At the beginning of the year	712,468	4,532,387	489,630	5,734,485	5,412,045
Charged during the year (note 18)	-	-	346,059	346,059	322,440
At 31 December	<u>712,468</u>	<u>4,532,387</u>	<u>835,689</u>	<u>6,080,544</u>	<u>5,734,485</u>
Net carrying value At 31 December	<u>3</u>	<u>-</u>	<u>765,202</u>	<u>765,205</u>	<u>882,157</u>

Al Moammar Information Systems Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2016

11. ACCRUED EXPENSES AND OTHER LIABILITIES

	2016 SR	2015 SR
Accrued project costs	74,424,747	38,211,441
Withholding tax payable (note 13)	18,943,522	16,242,547
Accrued employee costs	4,532,202	2,934,516
Accrued utilities	-	572,436
Others	827,525	657,202
	<u>98,727,996</u>	<u>58,618,142</u>

12. SHORT TERM LOANS

The short term loans are obtained from various local banks to meet the working capital requirements. These borrowings are secured by personal guarantees of the shareholders, promissory notes and assignment of certain contract proceeds and carry commission charges at prevailing market borrowing rates.

13. ZAKAT

*Charge for the year*

The zakat charge consists of:

	2016 SR	2015 SR
Charge for the year	<u>5,321,318</u>	<u>4,882,439</u>

The zakat provision for the year is based on the following:

	2016 SR	2015 SR
Equity	134,707,060	119,421,407
Opening allowances and other adjustments	35,260,137	29,818,257
Book value of long term assets	(2,015,291)	(5,546,231)
	<u>167,951,906</u>	<u>143,693,433</u>
Zakatable income for the year	<u>44,900,823</u>	<u>51,604,137</u>
Zakat base	<u>212,852,729</u>	<u>195,297,570</u>

The differences between the financial and the zakatable results are mainly due to the provisions, which are not allowed in the calculation of zakatable income.



Al Moammar Information Systems Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2016

13. ZAKAT (continued)

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

	2016 SR	2015 SR
At the beginning of year	7,044,453	6,086,424
Provided during the year	5,321,318	4,882,439
Payments during the year	(4,882,521)	(3,924,410)
Reversal during the year	(448,473)	-
At the end of year	<u>7,034,777</u>	<u>7,044,453</u>

*Status of assessments*

The Company has finalized its zakat assessment with the General Authority for Zakat and Tax (GAZT formerly, DZIT) up to year 2007 and obtained the final zakat assessment. The Company has filed the zakat returns for the years from 2008 to 2015 which are still under review by GAZT. The assessments are yet to be raised by the GAZT for years 2008 to 2015 and the outcome cannot be reasonably determined.

During 2011, the Company received final assessment with the GAZT for the years 2006 and 2007 for which showed an additional withholding tax liability of SR 6,097,791. The Company filed an appeal against the assessment which is currently with the Board of Grievance (BOG), paid the total amount under protest and recognized it in the statement of income. The Company has also submitted a bank guarantee to the GAZT for the delay penalties amounting to SR 2,608,207.

At the balance sheet date, a reasonable estimate of the outcome and ultimate tax liability were assessed by the management based on their estimates for the years ended 31 December 2008 to 31 December 2016, and have provided for these liabilities in the financial statements. The Company has recognized the liability after taking into account advice from its zakat advisor (note 11).

14. EMPLOYEES' TERMINAL BENEFITS

The movements in employees' terminal benefits are as follows:

	2016 SR	2015 SR
At the beginning of the year	10,912,300	8,928,335
Charge for the year	3,831,144	3,266,059
Payments during the year	(2,835,325)	(1,282,094)
At the end of the year	<u>11,908,119</u>	<u>10,912,300</u>

15. SHARE CAPITAL

Capital is divided into 5,000,000 shares (2015: 5,000,000 shares) of SR 10 each (2015:10 each).

16. DIVIDENDS

The board of directors in their meeting held on 12 March 2017 approved the distribution of interim dividends of SR 5.124 per share totaling SR 25.62 million.

The shareholders in their general assembly meeting held on 15 May 2016 approved the distribution of cash dividends of SR 5.063 per share totaling SR 25.32 million as proposed by the board of directors.

Al Moammar Information Systems Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2016

17. RELATED PARTY TRANSACTIONS AND BALANCES

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

<i>Name of related party</i>	<i>Nature of relationship</i>
Edarat group SAL	Associate

The transactions with related parties are as follows:

a) Transactions with related parties included in the statement of income are as follows:

<i>Related party</i>	<i>Nature of transaction</i>	<i>Amount of transaction</i>	
		<i>2016</i>	<i>2015</i>
		<i>SR</i>	<i>SR</i>
Associate	Purchases	4,760,700	8,688,655
	Rental income	332,219	331,605

Following are the details of the amount due from related party

	<i>2016</i>	<i>2015</i>
	<i>SR</i>	<i>SR</i>
Edarat Group SAL	787,193	780,381

b) Transactions and balances with shareholders are as follows:

Following are the details of transactions with the shareholders during the year:

	<i>Amount of transaction</i>	
	<i>2016</i>	<i>2015</i>
	<i>SR</i>	<i>SR</i>
Salaries and benefits	410,621	727,614

Following are the details of balances with the shareholders during the year:

	<i>2016</i>	<i>2015</i>
	<i>SR</i>	<i>SR</i>
Other payable	-	8,947



Al Moammar Information Systems Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2016

18. GENERAL AND ADMINISTRATION EXPENSES

	2016 SR	2015 SR
Employees cost	20,851,151	22,005,725
Withholding tax expense	2,700,975	1,531,766
Rent	2,536,805	2,261,220
Office supplies	977,046	1,037,211
Contractual penalties	643,982	735,793
Postage and communication	576,329	289,996
Travel	401,183	514,263
Depreciation (note 8)	357,565	378,199
Amortization (note 10)	346,059	322,440
Professional fees	330,250	705,750
Provision for doubtful receivables (note 4)	399,161	644,140
Others	366,237	213,535
	<u>30,486,743</u>	<u>30,640,038</u>

19. SELLING AND DISTRIBUTION EXPENSES

	2016 SR	2015 SR
Employees cost	9,316,281	8,463,218
Advertising and sales promotion	3,214,348	3,923,935
	<u>12,530,629</u>	<u>12,387,153</u>

20. EARNINGS PER SHARE

Earnings per share for the year ended 31 December 2016 and 2015 have been computed by dividing the income from main operations and net income for the year by the weighted-average number of ordinary shares of 5 million outstanding during the year 31 December 2016 and 2015 respectively.

Al Moammar Information Systems Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2016

21. SEGMENT INFORMATION

The Company operates solely in the Kingdom of Saudi Arabia. For management purposes, the Company is organized into business units based on service provided and has the following reportable segments:

*E-Services Unit*

E-Services provides software in areas of business service management, data center monitoring and optimization, in addition to contract center related solutions, as per requirements.

*Geographical Information System Unit*

GIS is a Business Unit that help plan, design, establish and equip modern GIS centers, providing business with necessary infrastructure. It aids in building geographic data, training client teams, configuring GIS tools and building end-user applications

*Hardware & System Integration Unit*

The HWSI unit provides technological and business expertise to turn possibilities into real business solutions.

*Information Security System Unit*

ISSU provides a broad portfolio of industry-best solutions, which help customers develop, deploy, fulfil and maintain optimum security. It is a unit that meets all customer requirements for their information security cycle.

*Networking Unit*

The business unit's main responsibility is to build efficient and cost effective networks and communication solutions based on technologies from various leading ICT.

*Operation & Maintenance Unit*

Operation and Maintenance Unit is the Management Operation & Maintenance Project Unit that apply project management support for tasks where the application of knowledge, skills, and techniques to successfully implement IT infrastructure is necessary.

*Corporate*

The Corporate Division is mainly involved in planning and execution of the overall objectives of the Company and synchronizes the function of finance, operations, procurement, logistics, sales, administration, and human resources department.

Management monitors the operational results of the operating segments separately for making decisions about resource allocation and performance assessment. Segment performance is based on operating profit and loss. The Company does not track assets and liabilities by business segment. These are not reported to the board of directors under any related segments and are monitored on a centralised basis and are accordingly disclosed as unallocated assets and liabilities.



Al Moammar Information Systems Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2016

21. SEGMENTAL INFORMATION (continued)

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

*Business segments*

Year ended December 31, 2016	E-Services Unit	Geographic information Systems unit	Hardware and systems integration unit	Information Security systems unit	Networking unit	Operation and maintenance unit	Corporate	Total
	SR	SR	SR	SR	SR	SR	SR	SR
Sales	93,593,699	48,272,389	273,166,510	70,279,651	72,143,067	96,568,227	-	654,023,543
Cost of sales	(60,772,300)	(43,354,433)	(244,620,609)	(60,508,992)	(59,422,872)	(86,881,554)	-	(555,560,760)
Gross profit	32,821,399	4,917,956	28,545,901	9,770,659	12,720,195	9,686,673	-	98,462,783
Operating and finance expenses	-	-	-	-	-	-	(57,478,338)	(57,478,338)
Share in income of associate	-	-	-	-	-	-	(752,352)	(752,352)
Other income	-	-	-	-	-	-	1,172,930	1,172,930
Income before zakat	32,821,399	4,917,956	28,545,901	9,770,659	12,720,195	9,686,673	(57,057,760)	41,405,023
Total assets	-	-	-	-	-	-	542,868,581	542,868,581
Total liabilities	-	-	-	-	-	-	372,077,600	372,077,600

Al Moammar Information Systems Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2016

21. SEGMENTAL INFORMATION (continued)

Year ended December 31, 2015	E-Services Unit SR	Geographic information Systems unit SR	Hardware and systems integration unit SR	Information Security systems unit SR	Networking unit SR	Operation and maintenance unit SR	Corporate SR	Total SR
Sales	66,398,205	96,102,412	300,254,805	83,092,068	98,961,178	71,996,822	-	716,805,490
Cost of sales	(46,084,538)	(86,743,200)	(267,200,920)	(71,123,234)	(87,135,255)	(61,647,376)	-	(619,934,523)
Gross profit	20,313,667	9,359,212	33,053,885	11,968,834	11,825,923	10,349,446	-	96,870,967
Operating and finance expenses	-	-	-	-	-	-	(52,108,236)	(52,108,236)
Share in income of associate	-	-	-	-	-	-	392,240	392,240
Other income	-	-	-	-	-	-	634,274	634,274
Income before zakat	20,313,667	9,359,212	33,053,885	11,968,834	11,825,923	10,349,446	(51,081,722)	45,789,245
Total assets	-	-	-	-	-	-	-	537,751,377
Total liabilities	-	-	-	-	-	-	-	377,423,164



Al Moammar Information Systems Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2016

22. CONTINGENT LIABILITIES

The following contingent liabilities were outstanding at the balance sheet date:

	2016 SR	2015 SR
Guarantees given in the ordinary course of business:		
Letters of credit	26,035,643	11,742,269
Letters of guarantee	115,901,894	91,289,123
	<u>114,937,537</u>	<u>103,031,392</u>

23. RISK MANAGEMENT

*Commission rate risk*

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market commission rates. The Company is subject to commission rate risk on its commission bearing short term bank deposits and loans. The Company manages its exposure to commission rate risk by continuously monitoring movements in commission rates.

*Credit risk*

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company seeks to manage its credit risk with respect to banks by only dealing with reputable banks and with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and ensuring close follow-ups.

*Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company manages its liquidity risk by ensuring that bank facilities are available. The Company's terms of sales require amounts to be paid within 30 to 60 days of the date of sale. Trade payables are normally settled within 30 to 60 days of the date of purchase.

*Currency risk*

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars, during the year. As the Saudi Riyal is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

24. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Financial instruments comprise of financial assets and financial liabilities.

The Company's financial assets consist of cash and cash equivalents, receivables and investments held for trading. Its financial liabilities consist of loans and borrowings and payables.

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

Al Moammar Information Systems Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2016

25. KEY SOURCES OF ESTIMATION UNCERTAINTY

*Impairment of accounts receivable*

An estimate of the collectible amount of accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates. Any difference between the amounts actually collected in future periods and the amounts expected will be recognized in the statement of income.

*Useful lives of property and equipment*

The Company's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 27 Jumada Al-Thani 1438H (corresponding to 26 March 2017).