SAUDI SPECIALIZED LABORATORIES COMPANY
(SAUDI CLOSED JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2017

SAUDI SPECIALIZED LABORATORIES COMPANY
(SAUDI CLOSED JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2017

BDO الدكتور محمد العمري وشركاه
Dr. Mohamed Al-Amri & Co.

P.O. Box 8736, Riyadh 11492
Tel. : +966 11 278 0608
Fax : +966 11 278 2883
info@alamri.com

INDEPENDENT AUDITOR'S REPORT

To the Partners of
Saudi Specialized Laboratories Company
(Saudi Closed Joint Stock Company)

Riyadh, Kingdom of Saudi Arabia

Opinion

We have audited the consolidated financial statements of Saudi Specialized Laboratories Company (a Saudi Closed Joint Stock Company) ("the Company") and its subsidiaries (collectively "the Group"), which comprise the consolidated balance sheet as at December 31, 2017, and the consolidated statements of income, cash flows and changes in equity for the year then ended, and notes from (1) to (24) 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 December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with generally accepted accounting principles in the Kingdom of Saudi Arabia.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) 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 the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Saudi Arabia 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.

Other Matter

The consolidated financial statements of the Group for the year ended December 31, 2016, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on March 8, 2017.

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 conformity with generally accepted accounting principles in the Kingdom of Saudi Arabia and the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of consolidated financial statements, 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, the 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 the 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.

Partners: Dr. Mohamed Al-Amri (60), Jamal M. Al-Amri (331), Gihad M. Al-Amri (362)
● Jeddah: Tel. 012 2830112, Fax: 012 6612788 ● Dammam: Tel. 013 8344311, Fax: 013 8338553, www.alamri.com
Dr. Mohamed Al-Amri & Co., a Saudi Professional Company registered under licence no. 323/11/66, C.R. 4030275330
member of BDO International Limited, a UK company Limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO الدكتور محمد العمري وشركاه
Dr. Mohamed Al-Amri & Co.

P.O. Box 8736, Riyadh 11492
Tel.: +966 11 278 0608
Fax: +966 11 278 2883
info@alamri.com

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 ISAs 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 ISAs 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 Group's management.
- Conclude on the appropriateness of Group'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.

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.

Report on other legal and regulatory requirements

In our opinion these consolidated financial statements, taken as a whole, comply with the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of consolidated financial statements.

For Dr. Mohamed Al-Amri & Co.

د. محمد العمري وشركاه - محاسبون قانونيون
س. ت: ١٠١٠٢٢٢٩٨٢
Riyadh
Certified Public Accountants
Dr. Mohamed Al-Amri & Co.

Gihad Al-Amri
Certified Public Accountant
Registration No. 362

Riyadh, on: July 26, 2018G
Corresponding to: Dhul Qe'da 13, 1439H

SAUDI SPECIALIZED LABORATORIES COMPANY
(SAUDI CLOSED JOINT STOCK COMPANY)

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2017

	Note	2017 SR	2016 SR (Restated)
ASSETS			
Current assets			
Cash and cash equivalents	3	**6,687,358**	2,213,372
Trade accounts receivable	4	**77,568,653**	58,784,885
Prepaid expenses and other receivables	5	**15,019,335**	20,071,726
Inventories		**367,320**	-
Due from related parties	6	**9,007,306**	10,650,093
Total current assets		**108,649,972**	91,720,076
Non-current assets			
Investments in available for sale securities	7	**40,405,813**	68,774,612
Investment in associates and joint ventures	8	**18,000,000**	4,500,000
Other investments		**-**	499,999
Property and equipment	9	**87,881,812**	97,414,732
Capital work in progress	10	**109,871,000**	103,165,556
Other long term assets		**560,000**	560,000
Intangible assets		**256,667**	-
Goodwill	11	**77,784,761**	77,784,761
Total non-current assets		**334,760,053**	352,699,660
TOTAL ASSETS		**443,410,025**	444,419,736
LIABILITIES AND EQUITY			
Current liabilities			
Tawarruq financing	12	-	4,086,283
Short term loans		**5,812,721**	5,709,148
Trade accounts payable		**8,989,074**	8,536,606
Accrued expenses and other credit balances	13	**20,351,233**	14,755,995
Due to related parties	6	**31,035,384**	25,987,435
Zakat and income tax provision	14	**2,362,071**	2,095,580
Total current liabilities		**68,550,483**	61,171,047
Non-current liabilities			
End-of-service benefits	15	**13,397,501**	10,699,630
Total liabilities		**81,947,984**	71,870,677
Equity			
Share capital	1	**500,000,000**	500,000,000
Statutory reserve		**387,721**	387,721
Unrealized (losses)/gains on available for sale securities		**(3,306,916)**	6,825,565
Accumulated losses		**(143,436,620)**	(144,275,356)
Total shareholders' equity		**353,644,185**	362,937,930
Non-controlling interests		**7,817,856**	9,611,129
Total equity		**361,462,041**	372,549,059
TOTAL LIABILITIES AND EQUITY		**443,410,025**	444,419,736

The accompanying notes from (1) to (24) form an integral part of these consolidated financial statements

SAUDI SPECIALIZED LABORATORIES COMPANY
(SAUDI CLOSED JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Note	2017 SR	2016 SR (Restated)
Revenues		**130,945,034**	91,117,059
Cost of revenues		**(98,432,025)**	(81,609,628)
Gross profit		**32,513,009**	9,507,431
Marketing expenses	**16**	**(2,035,559)**	(1,162,801)
General and administrative expenses	**17**	**(47,328,506)**	(33,190,780)
Loss from main operations		**(16,851,056)**	(24,846,150)
Realized gains on disposal of available for sale investments		**17,588,682**	**-**
Share of loss from investment in associates and joint ventures		-	(2,072,791)
Other income/(losses), net	**18**	**226,609**	(3,151,434)
Profit/(loss) before zakat and income tax and non-controlling interests		**964,235**	(30,070,375)
Zakat and income tax	**14**	**(2,173,772)**	(699,214)
Net loss for the year before non-controlling interests		**(1,209,537)**	(30,769,589)
Non-controlling interests		**2,048,273**	(2,163,633)
Net profit/(loss) for the year		**838,736**	(32,933,222)
<u>Earnings per share</u>	**19**		
Profit/(loss) per share		**0.02**	(0.66)
Weighted average number of shares outstanding		**50,000,000**	50,000,000

The accompanying notes from (1) to (24) form an integral part of these consolidated financial statements

SAUDI SPECIALIZED LABORATORIES COMPANY
(SAUDI CLOSED JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017 SR	2016 SR (Restated)
OPERATING ACTIVITIES		
Profit/(loss) before zakat and income tax	**964,235**	(30,070,375)
Adjustments for:		
Share of loss from investments in associates and joint ventures	**-**	2,072,791
Provision for doubtful debts	**-**	1,374,737
Depreciation	**13,889,163**	15,938,527
Loss on disposals of property and equipment	**38,770**	
Unrealized (gains)/losses from available for sale securities	**(10,132,481)**	5,711,158
End-of-service benefits	**3,091,307**	2,986,214
Changes in operating assets and liabilities:		
Trade accounts receivable	**(18,783,768)**	(34,291,202)
Prepaid expenses and other debit balances	**4,802,391**	11,949,114
Inventories	**(367,320)**	-
Due from/(to) related parties	**6,940,736**	3,274,619
Trade accounts payable	**452,468**	818,813
Accrued expenses and other credit balances	**5,595,238**	9,019,854
Cash from/(used in) operations	**6,490,739**	(11,215,750)
End-of-service benefits paid	**(393,436)**	(1,114,632)
Zakat and income tax paid	**(1,907,281)**	(1,898,060)
Net cash from/(used in) operating activities	**4,190,022**	(14,228,442)
INVESTING ACTIVITIES		
Investments in available for sale securities	**28,368,799**	7,811,516
Payments made to acquire a subsidiary	**-**	(1,059,125)
Investments in associates and joint ventures	**(13,000,001)**	10,014,730
Additions to property and equipment	**(4,395,013)**	(6,616,759)
Projects under process	**(6,705,444)**	(8,688,801)
Other long term assets	**-**	(560,000)
Additions to intangibles	**(256,667)**	-
Net cash from investing activities	**4,011,674**	901,561
FINANCING ACTIVITIES		
Tawarruq financing	**(4,086,283)**	4,086,283
Short term loans	**103,573**	5,180,758
Non-controlling interests	**255,000**	-
Net cash (used in)/from financing activities	**(3,727,710)**	9,267,041
Net change in cash and cash equivalents	**4,473,986**	(4,059,840)
Cash and cash equivalents, January 1	**2,213,372**	6,273,212
CASH AND CASH EQUIVALENTS, DECEMBER 31	**6,687,358**	2,213,372

The accompanying notes from (1) to (24) form an integral part of these consolidated financial statements

SAUDI SPECIALIZED LABORATORIES COMPANY
(SAUDI CLOSED JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017

	Share capital SR	Statutory reserve SR	Unrealized (losses)/gains from available for sale securities SR	Accumulated losses SR	Total shareholders' equity SR	Non-controlling interests SR	Total equity SR
January 1, 2016 (as originally stated)	500,000,000	387,721	1,114,407	(109,017,786)	392,484,342	54,256,858	446,741,200
Prior years adjustments	-	-	-	(947,480)	(947,480)	(46,550,001)	(47,497,481)
January 1, 2016 (as restated)	500,000,000	387,721	1,114,407	(109,965,266)	391,536,862	7,706,857	399,243,719
Movement in unrealized gains from investments in available for sale securities	-	-	5,711,158	-	5,711,158	-	5,711,158
Non-controlling interests share of Safety 24/7 Company acquisition	-	-	-	-	-	(259,361)	(259,361)
Net loss for the year	-	-	-	(32,933,222)	(32,933,222)	2,163,633	(30,769,589)
Zakat for Saudi Specialized Laboratories Company	-	-	-	(1,096,220)	(1,096,220)	-	(1,096,220)
Zakat for Advances Laboratories Services Company	-	-	-	(182,392)	(182,392)	-	(182,392)
Zakat and income tax for Saudi Industrial Inspection Services Company Limited	-	-	-	(98,256)	(98,256)	-	(98,256)
December 31, 2016 (as Restated)	**500,000,000**	**387,721**	**6,825,565**	**(144,275,356)**	**362,937,930**	**9,611,129**	**372,549,059**
Movement in unrealized losses from investments in available for sale securities	-	-	**(10,132,481)**	-	**(10,132,481)**	**-**	**(10,132,481)**
Net profit/(loss) for the year	-	-	-	**838,736**	**838,736**	**(2,048,273)**	**(1,209,537)**
Non-controlling interests share of Motabaqah International Company acquisition	-	-	-	**-**	**-**	**255,000**	**255,000**
December 31, 2017	**500,000,000**	**387,721**	**(3,306,916)**	**(143,436,620)**	**353,644,185**	**7,817,856**	**361,462,041**

The accompanying notes from (1) to (24) form an integral part of these consolidated financial statements

1. ORGANIZATION AND ACTIVITIES

Saudi Specialized Laboratories Company ("the Company") is a Saudi Closed Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia under Commercial Registration number 1010225110 dated Dhul Qe'da 29, 1427 (H), corresponding to November 21, 2006 (G). On February 23, 2017, the Company converted from a Mixed Closed Joint Stock Company to A Saudi Closed Joint Stock Company.

The share capital of the Company as of December 31, 2017 and 2016 was SR 500 million, divided into 50 million shares of SR 10 each. The total Saudi shareholder shares are 100% from Company's share capital.

The Company's Commercial Registration indicates that it is engaged in the establishment of laboratories for the examination, testing foodstuffs, agriculture, medicines, biological preparations, herbs, medicinal plants, sanitary preparations, petroleum products, chemical and petrochemical products, construction materials, mechanical devices and products, general materials and all products and materials according to the regulations in the Kingdom of Saudi Arabia to obtain a certificate of examination, inspection, operation and maintenance of equipment and devices required to carry out the said activities.

These consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as "the Group") as following:

	Location	Effective ownership	
		2017	2016
Motabaqah Trading Company ("MTC") (1)	Saudi Arabia	**100%**	100%
Advanced Laboratories Services Company ("ALS")	Saudi Arabia	**100%**	100%
International Resources for Environment and Quality Systems Company Ltd. ("AMAD")	Saudi Arabia	**51%**	51%
Motabaqah International Laboratories Company ("MI") (2)	Saudi Arabia	**49%**	49%
Safety 24/7 group	Saudi Arabia/Bahrain	**51%**	51%
Saudi Industrial Inspection Services Company	Saudi Arabia	**100%**	100%
Motabaqah Trading Company - UAE	United Arab Emirates	**100%**	100%

(1) MTC was registered in 2016 but was not consolidated in 2016 as the main operations did not commence until 2017.

(2) The Company has assessed that it is able to exercise control over MI and accordingly MI has been consolidated in these financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). The following is a summary of the significant accounting policies applied by the Group:

Accounting convention
The accompanying consolidated financial statements have been prepared under the historical cost convention on the accruals basis.

Financial year
The financial year of the Group commences on 1 January of each year and ends on 31 December of the same year.

Principles of consolidation
The consolidated financial statements include the financial statements of the Company and subsidiaries controlled by the Company as of December 31. Control is achieved where the Company has the power to govern the financial and operating policies of the investee company so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total income of subsidiaries is attributed to the shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All significant inter-group transactions and balances between group enterprises have been eliminated in preparing the consolidated financial statements.

Business combinations
Acquisition of each business is accounted for by applying the acquisition method. The acquired identifiable tangible and intangible assets, liabilities and contingent liabilities are measured at their fair values at the date of the acquisition. Excess consideration paid over the fair value of identifiable net assets acquired is recognized as goodwill. Acquisition related costs are accounted for as expenses in the years in which these are incurred.

Use of estimates
The preparation of the accompanying consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and activities, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years. The significant areas of estimation uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognized in the consolidated financial statements are as follows:

- estimated useful lives and residual values of property and equipment
- accruals and provisions
- assessment of whether control is achieved by the Company over its investees
- assessment of impairment of goodwill

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, cash at banks, demand deposits and highly liquid investments with original maturities of three months or less.

Trade accounts receivable
Trade accounts receivable are carried at their original amount less provision made for doubtful debts. An allowance for doubtful debts is established when there is significant doubt that the Company will be able to collect all amounts due according to the original terms of trade receivables.

Inventories
Inventories are stated at the lower of cost or net realizable value. Cost is determined, for finished goods on the weighted average cost basis and includes all appropriate proportion of direct costs. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make sales. Provision is made for slow-moving and obsolete inventories based on management's estimate.

Investments in financial instruments
Investments in financial instruments are classified according to the Company's intention with respect to those investments. The Company classifies all of its investments as available for sale as these are acquired principally for the purpose of selling them in the near term. Available for sale securities are measured at their fair values and realized gains or losses, if any, thereon are recognized in the consolidated statement of income and unrealized gains or losses are recognized in the consolidated statement of changes in equity. Gain or loss on disposal is included in other income on the consolidated statement of income.

Investment in associates and joint ventures
Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Company's share of the post-acquisition profits or losses of the investee in profit and loss. After the share in the investee is reduced to zero, a liability is recognized only to the extent that there is an obligation to fund the investee's operations or any payments have been made on behalf of the investee. Dividends received or receivable from the investee are recognized as a reduction in the carrying amount of the investment. Goodwill relating to the investee is included in the carrying amount of the investment and is not tested for impairment separately.

Property and equipment
Property and equipment are stated at cost less accumulated depreciation, except land and capital-work-in progress which are stated at cost. Expenditure on maintenance and repairs is expensed, while expenditure for improvements is capitalized. Depreciation is recognized by allocating the depreciable amount of an asset over its useful life using the straight line method.

The estimated useful lives of the principal classes of assets are as follows:

Asset class	Years
Buildings	5 – 33
Equipment and laboratory devices	8
Computers	5
Vehicles	5
Furniture and fixtures	5

Intangible assets
Intangible assets which are anticipated to provide future benefits are classified as non-current assets and comprise of SASO and ISO licenses. The licenses costs are amortized over three years using the straight-line method.

Goodwill
Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the cash-generating unit pro rata based on the carrying amount of each asset in the cash-generating unit.

Any impairment loss for goodwill is recognized directly as loss in the consolidated statement of income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

Impairment in assets value
At each consolidated balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately in the consolidated statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized as an income immediately in the consolidated statement of income.

Payables
Liabilities are recognized for amounts to be paid in the future for goods when risks and rewards attributable to goods are transferred to the Company or services are received, whether or not billed to the Company at the year end.

End-of-service benefits
End-of-service benefits, required by labor law, are provided in the consolidated financial statements based on the employees' length of service.

Provision for obligations
A provision is recognized in the consolidated financial statements when the Company has a legal or constructive obligation 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.

Foreign currency translation
Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the consolidated balance sheet date are translated into Saudi Riyals at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the consolidated statement of income.

Zakat and income tax
The Company is subject to zakat and income tax in accordance with the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia. The Company and its subsidiaries file their zakat and income tax returns individually. Zakat and income tax are provided on the accruals basis. The zakat charge is computed on the higher of the zakat base or adjusted net income, while income tax is computed on the adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared. In 2016, as a mixed closed joint stock company, the zakat and income tax are charged to the consolidated statement of changes in equity. In 2017, as a Saudi closed joint stock company, the zakat charge is charged to the consolidated statement of income.

Statutory reserve
In accordance with the Company's Articles of Association, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals to 50% of the share capital after covering the accumulated losses. This reserve is not available for dividend distribution.

Revenue recognition
Revenue recognized when the services rendered to customers and invoice issued. Where revenues comprises of fixed percentage commission revenue is recognized when the Group earns its commission and invoices are issued accordingly.

Reimbursable contracts
Revenue represents the costs of services rendered during the year plus margin as per the signed contracts with customers. The value of services rendered but not billed at the balance sheet date is classified as unbilled revenues under accounts receivable and prepayments under current assets and the value of services billed but not rendered at the balance sheet date is classified as billing in excess of services rendered under accounts payable and accruals under current liabilities.

Cost of revenues
Cost of revenues includes all direct costs direct labor, direct materials, and all other expenses attributable to revenues.

Expenses
Marketing expenses principally consist of costs incurred in the marketing of the Company's products, salaries and other benefits to marketing employees and other marketing expenses attributable to the Company. All other expenses are classified as general and administrative expenses.

Leasing
Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to the consolidated statement of income on a straight-line basis over the term of the operating leases.

Earnings per share
Earnings per share from net income/(loss) are computed by dividing net income for the year by the weighted average number of shares outstanding during the year.

3. CASH AND CASH EQUIVALENTS	**2017 SR**	2016 SR (Restated)
Cash on hand	**131,324**	1,500
Cash at banks	**6,556,034**	2,211,872
	6,687,358	2,213,372

4. TRADE ACCOUNTS RECEIVABLE

	2017 SR	2016 SR (Restated)
Trade accounts receivable	**80,759,836**	61,976,068
Less: Allowance for doubtful debts	**(3,191,183)**	(3,191,183)
	77,568,653	58,784,885

5. PREPAID EXPENSES AND OTHER RECEIVABLES

	2017 SR	2016 SR (Restated)
Prepaid expenses	**4,632,977**	2,589,651
Accrued revenues	**3,907,236**	13,224,749
Letters of guarantee margins	**2,609,259**	2,288,080
Advances to suppliers	**2,089,801**	49,607
Due from employees	**180,949**	179,017
Others	**1,599,113**	1,740,622
	15,019,335	20,071,726

6. RELATED PARTIES

Relate party	Relationship	Nature of transactions	Amount of transaction 2017 SR	Amount of transaction 2016 SR (Restated)	Balance 2017 SR	Balance 2016 SR (Restated)
Due from related parties						
Jeddah Investment Company	Shareholder	Expenses paid on behalf	**16,579**	-	**16,579**	-
AsureQuality Motabaqah L.L.C	Associate	Financing / Expenses paid on behalf	**451,788**	5,079,492	**7,902,683**	7,450,895
Gulf Electrical Equipment Testing Company	Associate	Expenses paid on behalf	**433,900**	68,900	**-**	433,900
Applus Arabia Company *	Other related party	Financing	**255,000**	-	**255,000**	-
Motabaqah Trading Company (refer to note 1)	Subsidiary	Expenses paid on behalf	**-**	1,519,020	**-**	2,695,965
ICT Systems Company *	Other related party	Expenses paid on behalf	**763,711**	-	**833,044**	69,333
					9,007,306	10,650,093

6. RELATED PARTIES (Contd.)

	Relate party Relationship	Nature of transactions	Amount of transaction 2017 SR	Amount of transaction 2016 SR (Restated)	Balance 2017 SR	Balance 2016 SR (Restated)
Due to related parties						
Applus Arabia Company *	Other related party	Financing	**7,767,364**	22,256,932	**28,655,625**	20,888,261
Shareholders current account in a subsidiary	Shareholder	Financing	**2,100,486**	4,480,245	**2,379,759**	4,480,245
International Scientific Laboratories Company	Other related party	Expenses paid on behalf	**568,053**	568,053	**-**	568,053
Intertek Overseas Holding Co. Ltd. (UK)	Shareholder	Financing	**-**	32,560	**-**	50,876
					31,035,384	25,987,435

* The Company and Applus Arabia Company ("Applus") (a subsidiary of ICT Systems Company) agreed to establish Motabaqah International Laboratories Company (MI) for the purposes of laboratory testing of safety training and certification and inspection services to customers in the territory (see also note 1). As per this agreement, the Company is required to transfer its assets to MI with a book value of approximately SR 145 million. Applus is required to pay to the Company consideration of SR of 74 million (representing 51% of SR 145 million) by making a cash payment to the Company of SR 22 million and by paying the remaining SR 52 million in eight yearly installments.

As at the date of the approval of these financial statements the assets referred to above have not been transferred to the MI. It is, however, anticipated that the assets will eventually be transferred by the Company in line with the above agreement. As a result of this and in order to clarify the situation until the assets are transferred, the Company and MI signed an agreement under which the Company will rent the assets to MI in return for a rental payment approximating to the deprecation charge of such assets. This agreement is effective from the date of incorporation of the MI and will remain valid until the assets are transferred by the Company.

7. INVESTMENTS IN AVAILABLE FOR SALE SECURITIES

	2017 SR	2016 SR (Restated)
Cost at beginning of the year	**68,774,612**	75,476,721
Additions during the year	**-**	4,500,000
Sold during the year	**(25,486,611)**	(18,452,402)
Unrealized (losses)/gains from re-evaluation of the investments	**(2,882,188)**	7,250,293
	40,405,813	68,774,612

As of December 31, 2017, the portfolio of securities with their respective market values was as follows:

Securities	**2017 SR**	2016 SR (Restated)
Samba Financial Group	**11,760,000**	12,200,000
National Commercial Bank	**22,040,000**	17,000,000
Saudi Arabia Fertilizers Company	**6,520,000**	7,500,000
Unutilized cash held by fund manager	**85,813**	574,612
Saudi Basic Industries Corporation	**-**	20,587,500
Saudi Telecom Company	**-**	10,912,500
	40,405,813	68,774,612

8. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	Shareholding	**2017 SR**	2016 SR (Restated)
Gulf Electrical Equipment Testing Company (1)	5%	**18,000,000**	4,500,000
AsureQuality Motabaqah LLC (2)	49%	**-**	-
		18,000,000	4,500,000

(1) During 2017, the Group increases its investment in Gulf Electrical Equipment Testing Company from SR 4.5 million to SR 18.0 million with the same 5% share.

(2) During the year 2016, the investment in AsureQuality Motabaqah LLC was completely impaired due to losses incurred by the company.

9. PROPERTY AND EQUIPMENT

	Land SR	Buildings SR	Equipment and laboratories devices SR	Computers SR	Vehicles SR	Furniture and fixtures SR	Total SR
Cost							
January 1, 2017	8,610,000	32,435,863	100,208,578	8,013,571	6,053,552	11,827,783	167,149,347
Additions	**-**	**1,564,841**	**418,398**	**632,241**	**271,929**	**1,468,834**	**4,356,243**
December 31, 2017	**8,610,000**	**34,000,704**	**100,626,976**	**8,645,812**	**6,325,481**	**13,296,617**	**171,505,590**
Accumulated depreciation							
January 1, 2017	-	7,037,474	45,104,856	5,730,905	3,513,103	8,348,277	69,734,615
Charge for the year	**-**	**1,323,349**	**10,097,258**	**483,539**	**926,749**	**1,058,268**	**13,889,163**
December 31, 2017	**-**	**8,360,823**	**55,202,114**	**6,214,444**	**4,439,852**	**9,406,545**	**83,623,778**
Net book value							
December 31, 2017	**8,610,000**	**25,639,881**	**45,424,862**	**2,431,368**	**1,885,629**	**3,890,072**	**87,881,812**
December 31, 2016 (Restated)	8,610,000	25,398,389	55,103,722	2,282,666	2,540,449	3,479,506	97,414,732

10. CAPITAL WORK IN PROGRESS

	2017 SR	2016 SR (Restated)
Dammam laboratories complex	**79,395,200**	78,369,199
Tires and cars inspection laboratories - Jeddah	**23,369,055**	16,906,960
Energy efficiency study	**225,000**	225,000
AMAD inspection consulting projects	**6,881,745**	7,664,397
	109,871,000	103,165,556

11. GOODWILL

	2017 SR	2016 SR (Restated)
Balance at beginning of the year	**77,784,761**	123,005,689
Prior year adjustments (refer note 21)	-	(46,550,001)
	77,784,761	76,455,688
Goodwill from acquisition of Safety 24/7 Company	-	1,329,073
	77,784,761	77,784,761

12. TAWARRUQ FINANCING

The Company has obtained tawarruq financing from a local bank in form of short term loans and letters of credits and guarantees. The tawarruq financing carry interest at the rate of profit 5 - 6% per annum and is secured against available for sale securities held by the Company. There are no covenants against this financing.

13. ACCRUED EXPENSES AND OTHER CREDIT BALANCES

	2017 SR	2016 SR (Restated)
Advance from customers	**6,149,051**	13,890
Accrued expenses	**2,874,435**	731,568
Employees accruals	**1,743,982**	3,923,303
Deferred revenues	**1,067,434**	-
Other creditors and sub-contractors	**-**	4,274,668
Others	**8,516,331**	5,812,566
	20,351,233	14,755,995

14. ZAKAT AND INCOME TAX PROVISION

Movement in the zakat provision was as follows:

	2017 SR	2016 SR (Restated)
Beginning of the year	**2,095,580**	1,917,558
Payment during the year	**(1,907,281)**	(1,898,060)
Provision for the year	**2,173,772**	2,076,082
Ending of the year	**2,362,071**	2,095,580

The Group did not record any tax provision in prior years.

Zakat assessment

The Company has submitted its zakat and income tax returns to GAZT till the year ended December 31, 2016 and zakat restricted certificates have been received. The final assessments for the years 2008 to 2016 are not received from GAZT yet. The Group subsidiaries submit their zakat and income tax returns independently. The status of the final zakat and income tax assessments of the Group's subsidiaries is disclosed in their respective financial statements.

15. END-OF-SERVICE BENEFITS

	2017 SR	2016 SR (Restated)
Beginning of the year	**10,699,630**	8,783,168
Provision for the year	**3,091,307**	2,986,214
Utilization of provision	**(393,436)**	(1,069,752)
Ending of the year	**13,397,501**	10,699,630

16. MARKETING EXPENSES

	2017 SR	2016 SR (Restated)
Salaries and related costs	**828,356**	-
Advertising	**246,926**	518,735
Depreciation	**234,333**	74,735
Business trips expenses	**209,254**	303,264
Tendering and general subscriptions	**147,289**	-
Repairs and maintenance	**112,909**	-
Others	**256,492**	266,067
	2,035,559	1,162,801

17. GENERAL AND ADMINISTRATIVE EXPENSES

	2017 SR	2016 SR (Restated)
Salaries and related costs	**29,802,148**	18,472,248
Depreciation	**3,983,328**	2,788,572
Professional consulting	**2,093,718**	2,457,023
Rents	**1,656,353**	2,152,198
Bank charges	**1,596,783**	495,448
Business trips expenses	**1,106,105**	1,105,602
Stationery and printing	**1,007,813**	423,508
Repairs and maintenance	**494,592**	169,403
General subscriptions	**490,322**	688,750
Iqama and visas fees	**457,977**	99,201
Board meetings expenses	**371,613**	341,500
Technical support expenses	**165,162**	415,513
Insurance	**152,575**	219,521
Others	**3,950,017**	3,362,293
	47,328,506	33,190,780

During the year ended December 31, 2017, salaries and related costs include the remunerations of the Chairman of the Board of Directors, salaries and allowances of the Board of Directors and remuneration of the Secretary of the Committee amounting to SR 120,000, SR 201,613 and SR 50,000 respectively (2016: SR Nil, SR 294,139 and SR 47,361 respectively).

18. OTHER INCOME / (LOSSES), NET

	2017 SR	2016 SR (Restated)
Foreign partner balances written off *	**-**	(3,363,753)
Others	**226,609**	212,319
	226,609	(3,151,434)

* Represent the amount that the Group written off during the year amounting to nil (2016: SR 3,363,753) in accordance with the agreement with the foreign partner to liquidate his balances with the Group, where the foreign partner paid SR 2,250,000 from his obligations to the Group amounting to SR 5,613,753.

19. EARNINGS PER SHARE

The earnings per share attributable to net income/(loss) for the year are calculated based on total number of shares issued, that is 50,000,000 shares as at December 31, 2017 (2016: 50,000,000 shares).

20. CONTINGENCIES AND CAPITAL COMMITMENTS

As of December 31, 2017 the Group had contingencies from letters of guarantee amounting to US$ 0.4 million (equal to SR 1.50 million) and SR 3.60 million (2016: US$ nil and SR 7.77 million) and letters of credit amounting to Euro 0.31 million (equal to SR 1.38 million) (2016: Euro 0.50 million (equal to SR 2.01 million) and US$ 0.90 million (equal to SR 3.47 million)).

The Group has capital commitments related to capital work-in-progress with some contractors amounting to SR 2.9 million (2016: SR 4.0 million).

21. PRIOR YEARS ADJUSTMENTS

	2016 SR		
	Before Adjustments	Adjustments	After Adjustments
Balance Sheet			
Prepaid expenses and other receivables	20,101,726	(30,000)	20,071,726
Investments in associates and joint ventures	5,417,480	(917,480)	4,500,000
Goodwill	123,005,689	(46,550,001)	76,455,688
Accumulated losses	(109,017,786)	(947,480)	(109,965,266)
Non controlling Interest	54,256,858	(46,550,001)	7,706,857

In the year 2016 financial statements, there were some subsidiaries which were not consolidated although being significantly controlled by the Group. Prior year adjustments were recorded in order to consolidate those subsidiaries. Also there is prior year adjustment related to the correction of the calculation of goodwill.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments comprise of financial assets and financial liabilities. The Group's financial assets consist of cash and cash equivalents and trade accounts receivable and other debit balances and its financial liabilities consist of trade accounts payable and other credit balances.

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 has no significant concentration of credit risk. Cash is substantially placed with banks with sound credit ratings. Trade receivables are carried net of provision for doubtful debts and are stated at their estimated realizable values. Other debit balances including advances to suppliers are monitored by management.

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 financial assets quickly at an amount close to their fair values. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet future commitments.

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group’s significant transactions are mainly in Saudi Riyals and United States Dollars. Management monitors the fluctuations in currency exchange rates and manages its effect on the consolidated financial statements accordingly.

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. As the Group’s financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair value of the Group’s financial assets and liabilities are not materially different from their carrying values.

23. TRANSITION TO IFRS

SOCPA has approved a plan for transition to International Financial Reporting Standards. The plan requires that, effective from January 1, 2018, all companies shall prepare their financial statements in accordance with the International Financial Reporting Standards as endorsed in Saudi Arabia and other standards and pronouncements endorsed by the SOCPA ("IFRS"). Accordingly, effective from January 1, 2018, the Group shall prepare its consolidated financial statements in accordance with IFRS.

24. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved from Board of directors on July 26, 2018.