

1. Shareholders Circular Submitted to The Shareholders of Red Sea International Company



This Circular is issued by Red Sea International Company, a Saudi joint stock company registered under Commercial Register No. 1010566349 on 13/07/1440H (corresponding to 20/03/2019G), issued in Riyadh, Kingdom of Saudi Arabia. The Company's head office is located in Riyadh, Kingdom of Saudi Arabia. Its current capital amounts to three hundred two million, three hundred forty-four thousand Saudi Riyals (SAR 302,344,000), divided into thirty million, two hundred thirty-four thousand, four hundred (30,234,400) ordinary shares with a nominal value of (10) ten Saudi Riyals per share ("Red Sea Company", the "Issuer", "RSI" or the "Company"). This Circular is directed to its shareholders, pursuant to Article 59 of the Rules on the Offer of Securities and Continuing Obligations regarding an increase in the capital of Red Sea Company by way of conversion of debts (the "Transaction") or (the "Debt Conversion Transaction"), in the amount of four hundred seventy-six million, twenty-three thousand, eight hundred twenty-one Saudi Riyals (SAR 476,023,821) by way of issuing eighteen million, thirty-two thousand, nine hundred eighty-three (18,032,983) new ordinary shares.

This Shareholders Circular has been prepared in accordance with Article 59 of the Rules on the Offer of Securities and Continuing Obligations (the "Shareholders Circular" or the "Circular") regarding an increase in the capital of Red Sea International Company, a Saudi joint stock company registered under Commercial Register No. 1010566349 on 13/07/1440H (corresponding to 20/03/2019G) issued in Riyadh, Kingdom of Saudi Arabia. The Company's head office is located in Riyadh, Kingdom of Saudi Arabia. Its current capital amounts to three hundred two million, three hundred forty-four thousand Saudi Riyals (SAR 302,344,000), divided into thirty million, two hundred thirty-four thousand, four hundred (30,234,400) ordinary shares with a nominal value of (10) ten Saudi Riyals per share (hereinafter referred to as "Red Sea Company" or "the Company") by way of conversion of certain debts of the Company to reduce the cumulative loss percentage and support its financial solvency, along with enhancing its financial position in general. The total of these debts is four hundred seventy-six million, twenty-three thousand, eight hundred twenty-one Saudi Riyals (SAR 476,023,821). This includes the settlement of the obligations related to the Company's acquisition of a 51% stake in the capital of Fundamental Installation for Electrical Works ("First Fix") on 20/11/1444H (corresponding to 09/06/2023G) (the "Acquisition"), which represents the Net Subsequent Consideration for the Acquisition due to the selling partners in First Fix, namely (1) MSB Holding Company, (2) Fares Ismat Al-Saadi, and (3) Ziad Jan Al-Sayegh (the "Selling Partners" or the "Acquisition Creditors") by the Selling Partners pursuant to the Assignment Agreements concluded by both the Selling Partners and the Assignees. This portion amounts to SAR 353,484,285, in addition to the debt owed to Al-Dabbagh Group Holding Company ("Al-Dabbagh Group") under the Loan Agreements (the "Loan Agreements") and the Debt Conversion Agreement in the amount of SAR 81,225,097, as well as the other creditors of the Company whom are (1) Mohammed Haider Bin Laden, and (2) Ghalab Bin Khalid Al-Sharif who became direct creditors of the Company as of 08/08/1445H (corresponding to 18/02/2024G) under the Assignment Agreements, in the amount of SAR 41,314,439 hereinafter referred to as (the "Assignees"). (The total debt owed to the Selling Partners, the Assignees, and Al-Dabbagh Group is referred to as the "Debt") (The Selling Partners, the Assignees, and Al-Dabbagh Group are collectively referred to as the "Creditors"). In exchange for this settlement, new shares in the Company are to be issued to the Creditors (the "Transaction" or the "Debt Conversion Transaction"). For further details on the Transaction Agreements, kindly refer to Paragraph 11.4 (Summary of All Significant Contracts and Agreements for the Capital Increase Transaction for the Purpose of Debt Conversion) of Section 11 (Legal Information) of this Circular. It should be noted that the completion of the Transaction is conditional on obtaining the necessary approvals, along with approval of the Transaction by the Extraordinary General Assembly of the Company. For further details on the necessary approvals, kindly refer to Paragraph 11.3 (Approvals Necessary to Complete the Transaction) of Section 11 (Legal Information) of this Circular. For clarification, if the approval of the required percentage (which is three-quarters (75%) of the voting rights represented at the meeting of the Company's Extraordinary General Assembly for the Transaction) is not obtained, the new shares will not be issued.

If the Transaction is approved by the Extraordinary General Assembly of the Company, the Company will accordingly issue eighteen million, thirty-two thousand, nine hundred eighty-three (18,032,983) new ordinary shares (hereinafter referred to

as the "New Shares") with a nominal value of ten (10) Saudi Riyals to the Creditors. As a result thereof, the Company's capital will be increased from three hundred two million, three hundred forty-four thousand Saudi Riyals (SAR 302,344,000) to four hundred eighty-two million, six hundred seventy-three thousand, eight hundred thirty-four Saudi Riyals (SAR 482,673,830). Furthermore, the number of shares will be increased from thirty million, two hundred thirty-four thousand, four hundred (30,234,400) ordinary shares to forty-eight million, two hundred sixty-seven thousand, three hundred eighty-three (48,267,383) ordinary shares. Hence, the Creditors will own 37.36% of the Company's capital after the Capital Increase (excluding Al-Dabbagh Group's current stake in the Company's capital, as Al-Dabbagh Group directly owns 51% of the Company's capital and indirectly owns 19% thereof, so that the total direct and indirect holdings of Al-Dabbagh Group is amount to 70% of the Company's capital before the Capital Increase. This percentage will decrease as a result of the Transaction, such that the direct stake in the Company's capital will be 38.32%, while the indirect stake will decrease to 11.9% of the Company's capital. Therefore, the total direct and indirect holdings of Al-Dabbagh Group will be 50.22% of the Company's capital when the Capital Increase resolution becomes effective). Upon completion of the Transaction, all debts owed by the Company will be settled in favor of the Creditors. Additionally, the New Shares will have the same rights as the current shares in the Company, including voting rights, dividends, repurchase rights, rights to surplus assets upon liquidation or dissolution, and other such rights. Note also that all shares in Red Sea Company are of a single class, and no share gives its holder any preferential rights.

It should be noted that the Transaction involves the presence of related parties, as certain Board members have an interest in the Transaction in their capacity as the owners or employees of Al-Dabbagh Group, such as managers or executives, as Al-Dabbagh Group directly owns 51% of the Company's capital and indirectly owns 19% thereof. Therefore, the total direct and indirect stake owned by Al-Dabbagh Group is 70% (before the Capital Increase), which makes it a major shareholder in the Company in addition to its capacity as one of the Creditors. The Company's Chairman, Amr Abdullah Mohammed Ali Al-Dabbagh (in his capacity as the indirect owner of 20% of Al-Dabbagh Group and the sole Director of Al-Dabbagh Group), Mohamed Hosni Jazeel (in his capacity as the Executive Director of Al-Dabbagh Group), and Shahad Khaled Nejaim (in her capacity as the Sustainability Director of Al-Dabbagh Group) (hereinafter referred to as the "Conflicted Directors") have disclosed their interest in the Transaction to the Board of Directors of the Company and have subsequently refrained from deliberating and voting on decisions related thereto. Furthermore, it should be noted that Board Resolution No. (83-2023) dated 15/01/1445H (corresponding to 02/08/2023G) did not clarify the abstention of the Chairman of the Board of Directors at that time as a related party to the Transaction. We also note that the agenda of the General Assembly of the Transaction will contain three separate items in relation to the Transaction, one of which relates to the approval of the debt conversion due as a result of the Shareholders' Loan by voting on (1) the issuance of three million seventy-seven thousand twelve (3,077,012) ordinary shares in favor of Al-Dabbagh Group, (2) the issuance of thirteen million three hundred and ninety thousand eight hundred and seventy-six (13,390,876) ordinary shares for the benefit of the Selling Partners, and (3) the issuance of one million five hundred and sixty-five thousand ninety-five (1,565,095) ordinary shares for the benefit of the Assignees. In the event of the approval of all resolutions, the Company will issue eighteen million thirty-two thousand nine hundred eighty-three (18,032,983) ordinary shares in favor of Creditors. It should be noted that Al-Dabbagh Group, Commercial Company for Marketing Services and Agencies Ltd., and Trading Development Group Company are abstained from voting on the section related to the approval of the resolution on the ratification of the Shareholders' Loan and the resolution to conversion of the Shareholders' Loan at the Company's Extraordinary General Assembly for the Transaction (for further details in this regard, kindly refer to Paragraph 9.9 (Details of Related Parties with a Direct or Indirect Interest in the Transaction) of Section 9 (Conversion of the Debt into Shares Through Capital Increase) of this Circular.

The following table shows the names and details of the as on 21/11/1445H (corresponding to 29/05/2024G):

The Company's Conflicted Directors									
Name	Nature of Conflict of Interest	Before the Transaction				After the Transaction			
		Stake in the Company		Stake in Al-Dabbagh Group		Stake in the Company		Stake in Al-Dabbagh Group	
		Direct Stake in the Company	Indirect Interest	Direct Stake in Al-Dabbagh Group	Indirect Interest	Direct Stake in the Company	Indirect Interest	Direct Stake in Al-Dabbagh Group	Indirect Interest
Amr Abdullah Al-Dabbagh	In his capacity as the indirect owner of 20% of the capital of Al-Dabbagh Group (he also serves as its sole director), which in turn directly owns 51% of the Company's capital and indirectly owns 19%, i.e., a total direct and indirect stake of 70% of Al-Dabbagh Group in the Company's capital (before the Transaction)	None	14%	None	20%	None	10.045%	None	20%
Mohamed Hosni Jazeel	In his capacity as a senior executive in Al-Dabbagh Group, which in turn directly owns 51% of the Company's capital and indirectly owns 19%, i.e., a total direct and indirect stake of 70% of Al-Dabbagh Group in the Company's capital (before the Transaction)	None	None	None	None	None	None	None	None
Shahad Khaled Nejaim	In her capacity as a senior executive in Al-Dabbagh Group, which in turn directly owns 51% of the company's capital and indirectly owns 19%, i.e., a total direct and indirect stake of 70% of Al-Dabbagh Group in the Company's capital (before the Transaction)	None	None	None	None	None	None	None	None

On 07/11/1411H (corresponding to 21/05/1991G), Red Sea International Company, a Saudi public joint stock company established as a general partnership under Commercial Register No. 4030052466 dated 03/05/1406H (corresponding to 13/01/1986G), was converted into a limited liability company under the amended Articles of Association notarized by the Notary Public, on page 41, issue 41, Volume 12 on 20/04/1412H (corresponding to 27/10/1991G). The Company was converted into a public joint stock company under Ministerial Resolution No. 1801 dated 05/07/1427H (corresponding to 21/08/2006G) with a capital of three hundred million Saudi Riyals (SAR 300,000,000). On 26/06/1433H (corresponding to 18/04/2012G), the Company's capital was increased to four hundred million Saudi Riyals (SAR 400,000,000) by way of granting additional shares. On 24/06/1435H (corresponding to 24/04/2014G), the Company's capital was increased to six hundred million Saudi Riyals (SAR 600,000,000) by way of granting bonus shares. On 25/12/1443H (corresponding to 24/07/2022G), the Company's capital was reduced to three hundred two million, three hundred forty-four thousand Saudi Riyals (SAR 302,344,000). The Company's head office is located in Riyadh pursuant to Commercial Register No. 1010566349 dated 13/07/1440H (corresponding to 20/03/2019G).

The Company's current capital is three hundred two million, three hundred forty-four thousand Saudi Riyals (SAR 302,344,000), divided into thirty million, two hundred thirty-four thousand, four hundred (30,234,400) ordinary shares with a nominal value of (10) ten Saudi Riyals per share. All of those shares are fully paid and listed on the Saudi Exchange (Tadawul) (hereinafter referred to as the "Existing Shares"). As a result of the Transaction, the Company's capital will be increased from three hundred two million, three hundred forty-four thousand Saudi Riyals (SAR 302,344,000) to four hundred eighty-two million, six hundred seventy-three thousand, eight hundred thirty-four Saudi Riyals (SAR 482,673,830).

The Company's Board of Directors (other than the Conflicted Directors) recommended, under its Resolution No. 1/1/2024 dated 12/11/1445H (corresponding to 20/05/2024G) to approve and ratify the previous Board of Directors Resolution No. (83-2023) dated 15/01/1445H (corresponding to 02/08/2023G) concerning the recommendation of the Company's Board of Directors to increase the Company's capital by capitalizing the Al-Dabbagh Group debt and the debt resulting from the Acquisition, a total of three hundred seventy-four million, two hundred twenty-nine thousand, two hundred fifty-eight Saudi Riyals (SAR 374,229,258) (it is worth noting that such board resolution did not show the abstention of then conflicted Chairman from deliberating and voting as a related party to the Transaction), and Board of Directors Resolution No. 03-02-2024 dated 07/09/1445H (corresponding to 17/03/2024G) concerning the revision of the total debt amount to be four hundred seventy-six million, twenty-three thousand, eight hundred twenty-one Saudi Riyals (SAR 476,023,821) by increasing the capital of the Company through the issuance of new shares with a nominal value of (10) Saudi Riyals per share. The New Shares, the nominal value of which amounts to one hundred eighty million, three hundred twenty-nine thousand, eight hundred thirty-four Saudi Riyals (SAR 180,329,830), will be granted, calculating a Conversion Factor of SAR 26.40 per share, to each of the Company's Creditors as described in Section 9 (Conversion of the Debt into Shares Through Capital Increase) of this Circular after the necessary statutory approvals and the Extraordinary General Assembly's approval are obtained (for further details, kindly refer to Section 11 (Legal Information)).

It is worth mentioning that MSB Holding Company will become a major shareholder in the Company after the Capital Increase by debt conversion is completed, as its total stake in the Company's capital will amount to 19.69%.

The completion of the Transaction is conditional on obtaining approval of the Transaction from the Company's Extraordinary General Assembly. For further details on the terms of the Transaction and the procedures necessary to complete the Transaction, kindly refer to Section 11 (Legal Information) of this Circular. If the required percentage of Red Sea Company shareholders approve, i.e., at least three-quarters of the shares represented during the Company's Extraordinary General Assembly for the Transaction, and all the terms of the Transaction stipulated in the Transaction Agreements and set forth in Section 11 (Legal Information) of this Circular are fulfilled, it will result in a decrease in the ownership percentage of the Company's Current Shareholders. For further details on the associated risks, kindly refer to Section 8 (Risk Factors) of this Circular. Upon completion of the Transaction, the Creditors will receive the New Shares in the Company according to the Conversion Factor, and the owners of the New Shares will accordingly have the same rights as the owners of the Existing Shares.

After the approval of the Transaction by the required percentage of the Company's Extraordinary General Assembly, the decision to increase the capital by means of debt conversion will become effective, provided that the New Shares are deposited no earlier than the third trading period after the Transaction decision becomes effective and no later than the sixth trading period after the Transaction decision becomes effective. Those shares shall be deposited in the Creditors' portfolios as follows:

The Company's Direct Creditors	Number of New Shares Granted	Total Direct Ownership Percentage Before the Transaction	Total Direct Ownership Percentage After the Transaction (Excluding Al-Dabbagh Group's current stake in the Company's capital)
MSB Holding Company	9,503,072	N/A	19.69%
Fares Ismat Al-Saadi	2,392,207	N/A	4.96%
Ziad Jan Al-Sayegh	1,495,597	N/A	3.10%
Mohammed Haider bin Laden	966,108	N/A	2.00%
Ghalab bin Khalid Al-Sharif	598,987	N/A	1.24%
Al-Dabbagh Group Holding Company	3,077,012	51%	6.37%
Total	18,032,983	51%	37.36%

The Company has submitted an application to the Capital Market Authority to register and offer the New Shares issued to the Creditors. It has also submitted an application to the Saudi Capital Market Company (Tadawul) (hereinafter referred to as the "Saudi Exchange") to list the New Shares on the Saudi Exchange. All the Capital Market Authority requirements have been met pursuant to the provisions of the Rules on the Offer of Securities and Continuing Obligations. Subject to the issuance of the Company's Extraordinary General Assembly approvals necessary for the Transaction, along with Capital Market Authority approval to publish this Circular, all statutory approvals related to the Transaction and the increase of the Company's capital will have been obtained under this Circular.

The Company's Board members (other than the) confirm, after exercising the due diligence they deem appropriate in the circumstances, that the decision to increase the capital by means of debt conversion is in the interest of the Company and the shareholders and that it will contribute to strengthening its position, improving its financial position, and achieving its strategy of reducing costs and increasing profits. The Company's Board of Directors has issued a statement of the debt principal and its value certified by the Auditor on 12/11/1445H (corresponding to 20/05/2024G). Accordingly, the Company's Board of Directors (other than the) recommends that the shareholders vote on the resolution to increase the capital by means of debt conversion during the meeting of the Company's Extraordinary General Assembly.

The shareholders should read this Circular thoroughly and review all the sections thereof carefully, in particular Section 2 (Important Notice) and Section 8 (Risk Factors) of this Circular, before voting on the resolution to ratify the Transaction and increase the capital. This Circular is critical and requires the attention of shareholders. If any shareholder has any doubt concerning the content of this Circular or to the action they should take, they should seek private financial advice from an independent financial advisor licensed by the Capital Market Authority.

Red Sea Company has appointed Al Rajhi Capital ("Al Rajhi Capital") as Financial Advisor in relation to the Transaction.

This Circular contains information presented in the application to register and offer securities in accordance with the Rules on the Offer of Securities and Continuing Obligations issued by the Capital Market Authority of the Kingdom of Saudi Arabia ("CMA") and the application to list securities in accordance with the Saudi Exchange Listing Rules. The Board members whose names appear in this Circular are jointly and severally liable for the accuracy of the information contained in this Circular. They confirm, having made all reasonable inquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would cause any statement herein to be misleading. The Capital Market Authority and the Saudi Exchange are not liable for the contents of this Circular. They make no representations as to its accuracy or completeness, and they expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Circular. If the contents of this Circular cannot be understood, a licensed financial advisor should be consulted.

The Circular has been prepared in Arabic and English and Arabic is the approved language. Therefore, in the event of a difference between the Arabic and English texts, the Arabic text shall prevail.

This Circular was published on 09/04/1447H (corresponding to 01/10/2025G).

Financial Advisor





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2. Important Notice

The Company has issued this Circular to provide information to its shareholders to enable them to make an informed decision when voting on the Board of Directors recommendation to increase the Company's capital by means of debt conversion. It would do so by issuing eighteen million, thirty-two thousand, nine hundred eighty-three (18,032,983) ordinary shares with a nominal value of SAR 10 per share, so that the total nominal value of the New Shares is one hundred eighty million, three hundred twenty-nine thousand, eight hundred thirty Saudi riyals (SAR 180,329,830) to the Creditors in exchange for settling the outstanding debts owed by the Company based on the agreed-upon Conversion Factor. As the total value of the converted debts to be converted amounted to four hundred and seventy-six million, twenty-three thousand, eight hundred and twenty-one Saudi riyals (SAR 476,023,821). The parties have agreed that the Conversion Factor in relation to the New Shares shall be SAR (26.40). For further details on the Transaction, please refer to Section 9 (*Conversion of the Debt into Shares Through Capital Increase*) of this Circular.

This Circular contains detailed information on the Transaction and aims to provide information to the Company's shareholders to enable them to make an informed decision when voting on the recommendation of the Board of Directors of Red Sea Company to approve the Transaction by increasing the capital to settle the debts owed by the Company, as obtaining the approval of the Company's shareholders through the Company's Extraordinary General Assembly for the Transaction is one of the requirements for completing the Transaction. Whereas the Company shareholders' vote on the Transaction resolution is based on the information contained in this Circular, the shareholders may obtain copies of this Circular from the Head Office of Red Sea Company or by visiting the website of Red Sea Company (www.redseaintl.com), the website of the Company's Financial Advisor (www.alrajhi-capital.com), the website of the Capital Market Authority (www.cma.org.sa), or the website of the Saudi Capital Market Company (Tadawul) (www.tadawul.com.sa).

The publication of this Circular has been approved by the Capital Market Authority, but this approval does not constitute a guarantee that the information contained therein is correct or complete. Note that the completion of the Transaction is contingent on the approval thereof by a three-quarters majority of the shares represented at the Company's Extraordinary General Assembly for the Transaction, whether the first, second, or third meeting. The Capital Market Authority and the Saudi Capital Market Company (Tadawul) are not liable for the contents of this Circular. They make no representations as to its accuracy or completeness, and they expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Circular.

The information, data, and statements contained in this Circular have been provided as at the date of publication of this Circular, unless otherwise stated. Therefore, the information in this Circular is subject to change after the date of publication. The publication of this Circular shall not be construed to mean that there has been no change in information and matters relating to Red Sea Company since the publication date of the Circular. This Circular does not contain any text that can be considered a forecast, plan, or estimate of the current or future financial performance of the Company, nor shall any statements in this document be interpreted to mean that the earnings per share in the current or future financial periods will necessarily be in line with or exceed those published in the previous financial statements of the Company. The information and data contained in this Circular reflect the view of the Board of Directors concerning the expected benefits and effects of the Transaction at the date of publication of this Circular. However, it is not a guarantee of the financial performance of the Company after the completion of the Transaction. It should be clarified that there are multiple factors and aspects that may affect the performance of the Company or the results it may achieve, whether positively or negatively. For further details, please refer to Section 8 (*Risk Factors*) of this Circular.

In accordance with the requirements of the Rules on the Offer of Securities and Continuing Obligations, the Company will publish a supplementary Shareholders Circular at any time after the publication date of this Circular and before the Company's Extraordinary General Assembly for the Transaction is held in the event that the Company becomes aware of a significant change in material matters contained in this Circular or the emergence of any important matters that should have been included herein.

The Company has not authorized anyone to provide any information or statements or to make any statements or clarifications on behalf of the Board of Directors except as disclosed in this Circular. Therefore, no information or statements issued by any other party should be relied upon on the basis that they are issued by the Company, the Financial Advisor, or any of Company's advisors in connection with the Transaction.

The Company has appointed Al Rajhi Capital ("**Al Rajhi Capital**") as Financial Advisor in relation to the Transaction. Al Rajhi Capital is subject to the applicable laws and statutes in force in the Kingdom of Saudi Arabia and is licensed by the Capital Market Authority to do so. It is acting as an exclusive Financial Advisor to the Company in this Transaction and does not work for any other party in this Transaction. Therefore, Al Rajhi Capital has not independently verified the validity and accuracy of the information and data contained in this Circular. Accordingly, neither Al Rajhi Capital nor any of its subsidiaries bears any liability that may result from the incorrectness, inaccuracy, or incompleteness of any of the data or information contained in this Circular.

Forecasts and forward-looking statements

This Circular contains some forecasts and forward-looking statements related to the Company. Forecasts and forward-looking statements are not based on historical or current facts. Such statements can be identified through the use of forward-looking words and expressions, including but not limited to “will,” “may,” “must,” “continue,” “believe,” “expect,” “intend,” “await,” “aim,” “estimate,” “contemplate,” “plan,” “aim,” “seek,” “should,” “would,” “could,” or any similar phrases that convey references to the future and represent forward-looking statements, or negative formulations of these or other terms that are of comparable or similar meaning. Forward-looking statements in this Circular involve risks and uncertainties that might cause the actual results to be materially different from the forecasts and forward-looking statements. Many of these risks and uncertainties relate to factors and conditions beyond the Company’s control or its ability to make accurate estimates, such as future market conditions and the behavior of other market participants. Forward-looking statements contained in this Circular include but are not limited to (1) initial estimates of the expected benefits of the Transaction, future projections of expenditures, expenses, revenues, financial performance, financial conditions, profit and loss distribution policy, and other future events, (2) strategies for work, management, expansion, and growing the Company’s business after the completion of the Transaction, and (3) milestones and procedures related to the Transaction and the dates on which these events are expected to occur. It cannot be affirmed or confirmed that any of the objectives or projections referred to in this Circular can be achieved, and no one should rely entirely on the forecasts and forward-looking statements set out in this Circular. Neither the Company nor any of the Advisors named in Section 3 (*Company Guide*) of this Circular or any of their managers, employees, or consultants working for them shall bear any liability resulting from any direct or indirect loss or damage that may be incurred by any person due to his reliance on any data in this Circular or due to the omission of any information that is not included in this Circular. None of those mentioned above intend to update these forecasts and forward-looking statements set out in this Circular except as required by law.

These forward-looking statements include risks that may or may not be apparent. Furthermore, there are other factors that may lead actual results, performance, or expectations to differ materially from those explicitly and implicitly contained in the statements set out in this Circular. Risks related to forward-looking statements are beyond the control of the Company and cannot be predicted or accurately estimated, for example market conditions, the behavior of other participants, or the behavior of shareholders. As such, these statements should not be relied upon entirely. It should also be noted that these forward-looking statements cannot be considered as a guarantee of the actual future performance of the Company and have not been reviewed by the Company’s Auditor except where indicated. It is also worth mentioning that these forward-looking statements are based on many assumptions, including those related to the Company’s future and current business strategies and organizational procedures that will be adopted in the future. The information described in this Circular is subject to change, in particular the financial position of the Company and the value of the shares. As such, it could be adversely affected as a result of future developments in economic factors such as inflation, political factors, or other factors beyond the control of the Company. Therefore, the publication of this Circular or any oral or written information related to the New Shares will not be considered as a confirmation, promise, or commitment regarding the achievement of any particular revenues or results. For further details on these risks, please refer to Section 8 (*Risk Factors*) of this Circular.

All forward-looking statements issued by the Company or by any of the Advisors named in Section 3 (*Company Guide*) of this Circular and acting on behalf of the Company in this Transaction, whether written or oral, are in their entirety restricted to the *Important Notice* contained in Section 2 of this Circular.

Restrictions Related to the Publication and Distribution of this Circular

This Circular is addressed to the Company’s shareholders and may not be published or distributed in any jurisdiction other than the Kingdom of Saudi Arabia or in any other country where this Circular is considered contrary to its laws. The Company will take no action to permit the issuance of the New Shares in a jurisdiction other than the Kingdom of Saudi Arabia. The Company shareholders residing in a jurisdiction other than the Kingdom of Saudi Arabia will attend the meeting of the Company’s Extraordinary General Assembly in the Kingdom of Saudi Arabia, vote remotely, or appoint a proxy to attend the meeting of the Company’s Extraordinary General Assembly and vote on their behalf.

Presentation of Financial Statements and other Information

The Company’s financial statements for the fiscal years ended 31 December 2020G, 2021G, and 2022G and the fiscal periods ended 30 September 2022G and 2023G have been prepared in accordance with the International Financial Reporting Standards adopted in the Kingdom of Saudi Arabia. The financial statements contained in this Circular are based on the estimates of the Company’s management and have not been independently audited by accountants or others except as expressly stated otherwise. Except as otherwise stated in this Circular, all financial statements contained in this Circular are in Saudi Riyals.

This Circular has been prepared in accordance with the laws and statutes in force in the Kingdom of Saudi Arabia. The scope, type, and nature of the information contained therein may differ had this document been prepared in accordance with the laws or regulations of jurisdictions other than the Kingdom of Saudi Arabia. The Company does not intend to take any action to publish this Circular or register the shares proposed to be issued in any country other than the Kingdom of Saudi Arabia. The Transaction relates to securities of Saudi joint stock companies listed on Saudi Exchange. Accordingly, this Circular and any other documents or announcements related to the Transaction have been or will be prepared in accordance with only those disclosure requirements in force in the Kingdom of Saudi, which may differ from those in force in other jurisdictions.

No person shall interpret or consider the contents of this Circular as legal, financial, or tax advice. Anyone who reads this Circular should consult his own advisor regarding its contents.

The contents of the Company website, or the contents of any other website on which this Circular is published, do not form part of or supplement the Circular, and none of Company's Advisors assumes any responsibility for the contents of such websites.

This Circular is not a recommendation by the Financial Advisor or other Advisors to vote in favor of the Debt Conversion Transaction.

For further clarification on the terminology and abbreviations contained herein, see Section 7 (*Definitions and Terminology*) of this Circular.

3. Company Guide

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Financial Advisor

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Red Sea Company's Auditor for the Fiscal Years Ended 31 December 2020G, 2021G, and 2022G and for the Fiscal Period Ended 30 September 2022G and 2023G

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Note: The Financial Advisor, Legal Advisor, and Auditor named above have each submitted their written approvals to include their names, logos, and statements in the context contained in this Circular, and none of them has withdrawn this approval as of the issuance date of this Circular. Additionally, neither the Financial Advisor, Legal Advisor, Auditor, their employees, nor any of their relatives has any shares or interest of any kind in the Company or its subsidiaries as of the date of this Circular.

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4. Summary

This summary is intended to provide Company shareholders with a general overview of the Transaction. This summary does not include all the information that may be important to the shareholders so that they can vote on the Capital Increase resolution and ratify the Transaction during the meeting of the Company's Extraordinary General Assembly for the Transaction. All the shareholders must consider this summary as no more than an overview of the Debt Conversion Transaction. Therefore, the shareholders should read this Circular in full and review the information and data contained herein carefully so that they can, on that basis, issue any decision related to voting on the Capital Increase and the ratification of the Transaction subject of this Circular.

Summary of the Debt Conversion Transaction	
Name, Description, and Incorporation Information	Red Sea International Company is a Saudi public joint stock company established as a public joint stock company by virtue of Ministerial Resolution No. 1801 dated 05/07/1427H (corresponding to 21/08/2006G) with a capital of three hundred million Saudi Riyals (SAR 300,000,000). On 26/06/1433H (corresponding to 18/04/2012G), the Company's capital was increased to four hundred million Saudi Riyals (SAR 400,000,000). On 24/06/1435H (corresponding to 24/04/2014G), the Company's capital was increased to six hundred million Saudi Riyals (SAR 600,000,000). On 25/12/1443H (corresponding to 24/07/2022G), the Company's capital was reduced to three hundred two million, three hundred forty-four thousand Saudi Riyals (SAR 302,344,000). The Company's head office is located in Riyadh pursuant to Commercial Register No. 1010566349 dated 13/07/1440H (corresponding to 20/03/2019G).
Summary of the Company's Activities as per its Bylaws	Pursuant to its Bylaws, the Company's purposes are as follows: 1. Purchasing land and real estate with the aim of developing them, improving them, constructing residential and commercial buildings on them, and exploiting them by sale or lease for the benefit of the Company. 2. General contracting for buildings: construction, repair, demolition, renovation. This includes general, residential, commercial, and industrial buildings, educational facilities, entertainment facilities, sports and health facilities, airport buildings, and prefabricated buildings. 3. Maintenance and operation: maintenance and operation of buildings, roads, water and sewerage facilities, and medical and sports centers, in addition to maintenance and operation of electrical and mechanical units and city cleaning. 4. Manufacturing of prefabricated buildings and building components utilizing metal, wood, lightweight concrete, PVC, and fiberglass, including but not limited to one-story and multi-story houses, offices, dormitories, recreation buildings, dining halls, kitchens, freezer rooms, laundry rooms, storerooms, security rooms, schools, clinics, and hotels. 5. Manufacturing of transportable wastewater treatment plants, potable water treatment plants, shipping containers, and power plants. 6. Manufacturing of fiberglass plumbing fixtures, including but not limited to all components categorized as sinks, showers and their accessories, bathtubs, countertops, tanks, and all associated accessories. 7. Manufacturing, repair, and maintenance of oil fields and all petrochemical steel structures, including both onshore and offshore installations. 8. Manufacturing of perforated PVC and polystyrene components of all types. 9. Construction of utilities and execution of civil works including but not limited to concrete, plumbing, electrical, and waste collection, treatment, and removal works, as well as recreational facilities such as sports courts and swimming pools, roads, walkways, lighting, security systems, communication systems, fire detection and fire fighting systems, and any other related civil works. 10. Management and maintenance of residential and commercial real estate properties. 11. Retail and wholesale trade of building materials, industrial equipment, and road construction equipment. 12. Subcontracting of specialized works including but not limited to decorations of all types, earth removal, filling and compacting, finishings, and building erections and installations, in addition to leasing and operating construction equipment. 13. Supply and trade of foodstuffs and provision of nutrition and food services. 14. Disinfection and extermination of insects and rodents. The Company operates in accordance with the applicable laws and with the necessary licenses issued by the competent authorities, if any. The Company may establish limited liability companies or closed joint stock companies, provided that the capital is not less than (5) five million Saudi Riyals. It may also hold shares and stakes in other existing companies or merge therewith. It has the right to partner with third parties to establish joint stock or limited liability companies after fulfilling the requirements of the laws and instructions in this regard. The Company may also dispose of such shares or stakes, provided that this does not include brokerage in trading therein.

Summary of the Debt Conversion Transaction

Major Shareholders and their Ownership Percentages before and after the Debt Conversion Transaction	The following table shows the major shareholders in the Company, their ownership percentages as of the date of this Circular, and ownership percentages before and after the Transaction:				
	Shareholder	Before Debt Conversion Transaction		After Debt Conversion Transaction	
		Number of shares	Direct ownership percentage	Number of shares	Direct ownership percentage
	Al-Dabbagh Group Holding Company	15,419,539	51%	18,496,551	38.32%
	Trading Co. for Marketing Services & Agencies	3,023,436	10%	3,023,436	6.26%
	Tanmiah Commercial Group Company	2,721,093	9%	2,721,093	5.64%
	Total holdings of current major shareholders	21,164,068	70%	24,241,080	50.22%
Ownership Percentage of the Public, Major Shareholders, and the Creditors and their Numbers of Shares Before and after the Transaction	The following table shows the ownership percentage of the current major shareholders, the Creditors, and the public before and after the Transaction:				
	Shareholder	Before Debt Conversion Transaction		After Debt Conversion Transaction	
		Number of shares	Direct ownership percentage	Number of shares	Direct ownership percentage
	Al-Dabbagh Group Holding Company	15,419,539	51%	18,496,551	38.32%
	Trading Co. for Marketing Services & Agencies	3,023,436	10%	3,023,436	6.26%
	Tanmiah Commercial Group Company	2,721,093	9%	2,721,093	5.64%
	MSB Holding Company		N/A	9,503,072	19.69%
	Fares Ismat Al-Saadi ⁽¹⁾		N/A	2,392,207	4.96%
	Ziad Jan Al-Sayegh ⁽¹⁾		N/A	1,495,597	3.10%
	Mohammed Haider bin Laden ⁽¹⁾		N/A	966,108	2.00%
	Ghaleb bin Khalid Al-Sharif ⁽¹⁾		N/A	598,987	1.24%
	The public ⁽²⁾	9,070,332	30%	14,523,231	30.09%
	Total	30,234,400	100%	48,267,383	100%
	(1) It is worth mentioning that the shares of Fares Ismat Al-Saadi, Ziad Jan Al-Sayegh, Mohammed Haider bin Laden, and Ghaleb bin Khalid Al-Sharif will be calculated as part of public shareholding after the completion of the Transaction, as each one's stake will be less than 5% of the total capital of the Company. (2) For the purpose of determining the number and percentage of shares owned by the public, the stakes of Fares Ismat Al-Saadi, Ziad Jan Al-Sayegh, Mohammed Haider bin Laden, and Ghaleb bin Khalid Al-Sharif have been calculated as part of public ownership in the above table.				
Company Capital	Three hundred two million, three hundred forty-four thousand Saudi riyals (SAR 302,344,000)				
Total Number of Company shares	Thirty million, two hundred thirty-four thousand, four hundred (30,234,400) shares				
Nominal Value of each Company Share	Ten (10) Saudi Riyals per share, fully paid				
Total Number of New Shares	Eighteen million, thirty-two thousand, nine hundred eighty-three (18,032,983) shares				
Percentage of New Shares in the Current Capital of the Company	The New Shares represent (59.64%) of the total capital of the Company.				
New Shares Issue Price	The nominal value of the New Shares is ten (10) Saudi riyals per share. The Conversion Factor for the Transaction has been set at (26.40) Saudi riyals per share.				
Total Value of New Shares Issue	The total nominal value of the New Shares is one hundred eighty million, three hundred twenty-nine thousand, eight hundred thirty Saudi riyals (SAR 180,329,830), and the total value of the New Shares issue (as will be reflected in the financial statements of the Company) will be determined on the basis of the Conversion Factor agreed upon between the parties, which is (SAR 26.40), as explained in Section 11 (<i>Legal Information</i>) of this Circular.				

Summary of the Debt Conversion Transaction

Description of Debt Conversion Transaction

The Debt Conversion Transaction consists of increasing the Company's capital by converting the debts and obligations owed by the Company to the Creditors, namely: (1) MSB Holding Company, (2) Fares Ismat Al-Saadi, (3) Ziad Jan Al-Sayegh (whose debts are due under the Acquisition Agreement), (4) Mohammed Haider bin Laden, (5) Ghaleb bin Khalid Al-Sharif (whose debts are due directly against the Company under the two Assignment Agreements), and (6) Al-Dabbagh Group (whose debt is due under the Debt Conversion Agreement) for a total amount of four hundred seventy-six million, twenty-three thousand, eight hundred twenty-one Saudi Riyals (SAR 476,023,821). Such debts and obligations consist of the debt resulting from the Company's acquisition of First Fix. The Transaction consists of the issuance of new shares in the Company to the Selling Partners and the Assignees, with a value equivalent to Three hundred and fifty three million four hundred and eighty four thousand two hundred and eighty five (353,484,285) Saudi Riyals (353,484,285), representing the total amount of the Net Subsequent Consideration, and the debt due to Al-Dabbagh Group as a shareholder in the Company, represented in a loan in the total amount of eighty-one million, two hundred twenty-five thousand, ninety-seven Saudi Riyals (SAR 81,225,097), as well as the debt resulting from the two Assignment Agreements, amounting to forty-one million three hundred and fourteen thousand four hundred and thirty-nine (41,314,439) Saudi Riyals, is due directly to the Assignees.

This will be done by means of issuing eighteen million, thirty-two thousand, nine hundred eighty-three (18,032,983) shares with a nominal value of (10) Saudi Riyals per share, provided that the Conversion Factor is SAR 26.40 per share, so that the total nominal value of the New Shares is an amount of one hundred eighty million, three hundred twenty-nine thousand, eight hundred thirty Saudi Riyals (SAR 180,329,830) for the benefit of the Creditors. For further details on the Transaction, please refer to Section 9 (*Conversion of the Debt into Shares Through Capital Increase*) of this Circular.

We also note that the agenda of the Company's Extraordinary General Assembly for the Transaction will contain three separate items in relation to the Transaction, first of which relates to the approval of the Debt Conversion due as a result of the Shareholders' Loan by (1) the issuance of three million seventy-seven thousand twelve (3,077,012) ordinary shares in favor of Al-Dabbagh Group, the other (2) the issuance of thirteen million three hundred and ninety thousand eight hundred and seventy-six (13,390,876) ordinary shares for the benefit of the Selling Partners; and finally (3) the issuance of one million five hundred and sixty-five thousand ninety-five (1,565,095) ordinary shares will be voted on in favor of the Assignees, in the event of the approval of all resolutions, the Company will issue eighteen million thirty-two thousand nine hundred eighty-three (18,032,983) ordinary shares in favor of Creditors. It should be noted that Al-Dabbagh Group, Commercial Marketing Services & Agencies Co. Ltd., and Trading Development Group Company are abstained from voting on the section related to the approval of the resolution on the ratification of the Shareholders' Loan and the resolution to conversion of the Shareholders' Loan at the Company's Extraordinary General Assembly for the Transaction.

Debt Conversion Structure

The Company will increase its capital by converting the debts due to Creditors in exchange for issuing New Shares in the Company as consideration for eligible creditors in a total amount of four hundred seventy-six million, twenty-three thousand, eight hundred twenty-one Saudi Riyals (SAR 476,023,821) through the Company's issuance of eighteen million, thirty-two thousand, nine hundred eighty-three (18,032,983) ordinary shares with a nominal value of ten (10) Saudi Riyals per share. The Transaction Conversion Factor has been determined to be SAR 26.40 per share. Thus, the Capital Increase is equivalent to one hundred eighty million, three hundred twenty-nine thousand, eight hundred thirty Saudi Riyals (SAR 180,329,830).

The Company will issue shares to the Creditors as follows:

Creditor	Debt Amount	Number of New Shares Granted	Total Direct Ownership Percentage Before the Transaction	Total Direct Ownership Percentage After the Transaction (Excluding Al-Dabbagh Group's current stake in the Company's capital)
MSB Holding Company	250,856,367.65	9,503,072	N/A	19.69%
Fares Ismat Al-Saadi	63,148,045.42	2,392,207	N/A	4.96%
Ziad Jan Al-Sayegh	39,479,872.42	1,495,597	N/A	3.10%
Mohammed Haider bin Laden	25,502,739.32	966,108	N/A	2.00%
Ghaleb bin Khalid Al-Sharif	15,811,699.43	598,987	N/A	1.24%
Al-Dabbagh Group Holding Company	81,225,097	3,077,012	51%	6.37%
Total		18,032,983	51%	37.36%

This is after obtaining the necessary approvals to complete the Transaction. After the completion of the Transaction, the Creditors will own 37.36% of the Company's capital after the Capital Increase (excluding Al-Dabbagh Group's current stake in the Company's capital, which in direct terms amounts to 51% of the Company's capital and in indirect terms 19%, so that its total direct and indirect stake of Al-Dabbagh Group is 70% of the Company's capital before the Capital Increase. This percentage will decrease as a result of the Transaction, such that the direct stake in the Company's capital will be 38.32%, while the indirect stake will decrease to 11.9% of the Company's capital. Therefore, the total direct and indirect holdings of Al-Dabbagh Group will be 50.22% of the Company's capital when the Capital Increase resolution becomes effective). As a result of the Capital Increase, the Creditors' total holdings (including the current direct stake of Al Dabbagh Group) will become 69.31% of the Company's capital. For further information on the Transaction, please refer to Section 9 (*Conversion of the Debt into Shares Through Capital Increase*) of this Circular.

Summary of the Debt Conversion Transaction	
Purpose of Debt Conversion	Due to the Company's tight cash flow at present, the Company has agreed with the Creditors to convert their debts into shares rather than cash settlements. This conversion is expected to benefit the Company as follows: - Reducing the cumulative loss percentage and meeting the requirements of the Companies Law with regard to cumulative losses, according to the latest initial financial statements dated 30/06/2025, the accumulated losses amounted to two hundred and ninety-five million four hundred and eighty thousand (295,480,000) Saudi Riyals, which constitutes 97.73% of the company's capital. - Supporting the Company's solvency and enhancing its ability to obtain new debt financing (loans, sukuk, etc. ...) for future growth opportunities. - Strengthening the general financial position of the Company. This proposed Capital Increase will mitigate the Company's risk due to the above factors, which will have a positive impact on the Company's shareholders, including minority shareholders.
Related Parties	The Transaction involves the presence of related parties, as certain Board members have an interest in the Transaction in their capacity as owners, directors, or executives of Al-Dabbagh Group, namely (1) Amr Abdullah Al-Dabbagh, the indirect owner of 20% (he also serves as its sole director) of the capital of Al-Dabbagh Group, as well as (2) Mohammed Hosni Jazeel and (3) Shahad Khaled Nejaim in their capacity as executives of Al-Dabbagh Group. Al-Dabbagh Group is one of the Creditors subject of the Transaction. The Related Parties have abstained from voting on Transaction decisions issued by the resolution of the Company's Board of Directors to ratify the Transaction, although it should be noted that Board Resolution No. (83-2023) dated 15/01/1445H (corresponding to 02/08/2023G) did not clarify the abstention of the Chairman of the Board of Directors at that time as a related party to the Transaction. It should also be noted that the shareholders related to the shareholders' loan, namely (1) Al-Dabbagh Group, (2) Commercial Marketing Services and Agencies Co. Ltd., and (3) Commercial Development Group, will abstain from voting on the resolution related to the approval of the shareholders' loan as well as the decision to approve the Debt Conversion agreement at the Company's Extraordinary General Assembly for the Transaction. For further details on the Conflicted Directors, please refer to paragraph 9.9 (<i>Details of Related Parties with a Direct or Indirect Interest in the Transaction</i>) of Section 9 (<i>Conversion of the Debt into Shares Through Capital Increase</i>) of this Circular.
Summary of Key Actions Required	The key steps to complete the Transaction are as follows: - Saudi Exchange (Tadawul) approval on the Company's application to list the New Shares issued to the Creditors - Capital Market Authority approval of the Capital Increase application - Publication of the invitation to convene the Company's Extraordinary General Assembly for the Transaction - Company shareholder approval, during the meeting of the Company's Extraordinary General Assembly for the Transaction, to increase the capital by means of debt conversion - Publication of the resolutions of the Company's Extraordinary General Assembly - Issuance, registration, and listing in the Saudi Exchange of the new shares in the Company for the Creditors - Fulfillment of all other legal requirements related to the Transaction, if any - Ministry of Commerce approval of the proposed amendments to the Company's Bylaws - Amendment of the Company's Bylaws and commercial register - Fulfillment of all the conditions specified in the Acquisition Agreement and summarized in Section 11 (<i>Legal Information</i>) of this Circular.
Eligibility for Dividends from the New Shares	After the completion of the Transaction, the holders of the New Shares (i.e., the Creditors) will have all the rights related to the shares currently issued in the Company, in particular the right to receive any dividends declared by the Company after the completion of the Transaction.
Approvals Required for the Capital Increase	The debt conversion and Capital Increase Transaction requires a number of approvals as follows: - Saudi Exchange (Tadawul) approval on the Company's application to list the New Shares issued to the Creditors - Capital Market Authority approval of the Company's application to register and offer new shares and to publish the Shareholders Circular - Company shareholder approval of the Transaction and additional resolutions related thereto - Ministry of Commerce approval of the proposed amendments to the Company's Bylaws For further details on the other terms of the Transaction and those that have been fulfilled, kindly refer to Section 11 (<i>Legal Information</i>) of this Circular.
Voting Rights for the New Shares	After the completion of the Transaction, the New Shares will have all the rights of the Existing Shares in the Company, in particular the right to vote on the resolutions of the Ordinary and Extraordinary General Assemblies, namely one (1) vote per share, in accordance with the provisions of the Companies Law and the Company's Bylaws.
Voting Rights for Existing Shares	After the completion of the Transaction, the Existing Shares will have all the rights of the Existing Shares in the Company prior to the completion of the Transaction, in particular the right to vote on the resolutions of the Ordinary and Extraordinary General Assemblies, namely one (1) vote per share, in accordance with the provisions of the Companies Law and the Company's Bylaws.
Restrictions on New Shares	There are no restrictions on the New Shares except for the undertaking of Al-Dabbagh Group not to dispose its 3,077,012 New Shares resulting from the Transaction in the company, for a period of thirty-six (36) months from the date of Completion of the Debt Conversion Transaction.
Restrictions on Existing Shares	There are no restrictions on the Existing Shares.

Important Notice: The proposed increase in the Company's capital is conditional on Company shareholder approval during the meeting of the Company's Extraordinary General Assembly for the Transaction. Accordingly, all the Company's shareholders should read this Circular in full and carefully (not just the summary set out above) before voting to approve or disapprove the Transaction and the Capital Increase during the Extraordinary General Assembly meeting held for this purpose. The shareholders must also read and review both Section 2 (*Important Notice*) and Section 8 (*Risk Factors*) of this Circular carefully and thoroughly before making any decision with respect to the Transaction.

5. Important Dates and Milestones for the Debt Conversion Transaction

The dates shown in the table below are indicative only and may be changed because they are based on, inter alia, the fulfillment of the terms of the Transaction. Section 11 of this Circular (*Legal Information*) summarizes all the terms of the Transaction. The Company will announce any changes to the dates set out in the table below on its website and/or the Tadawul website.

Event	Timeline / Date
1. Procedures relating to the Extraordinary General Assembly	
Capital Market Authority approval of the Capital Increase application and publication of the Circular	09/04/1447H (corresponding to 01/10/2025G)
Tadawul website announcement of the invitation to the Company's Extraordinary General Assembly for the Transaction (mentioning the possibility of holding a second meeting one hour after the end of the period specified for the first meeting, in the event that the quorum necessary for holding the first meeting is not met)	••/••/1447H (corresponding to ••/••/2025G))
Publication of the Circular	••/••/1447H (corresponding to ••/••/2025G))
Provision of documents available for inspection	From ••/••/1447H (corresponding to ••/••/2025G) until the expiry date of the offer period (from Sunday to Thursday from 9 am to 5 pm, excluding public holidays in the Kingdom)
Commencement of the e-voting period for the shareholders at the Company's Extraordinary General Assembly for the Transaction	••/••/1447H (corresponding to ••/••/2025G))
Convening of the Company's Extraordinary General Assembly for the Transaction (first meeting); the Assembly quorum will be met if shareholders representing at least half of the voting rights in Red Sea Company are present.	••/••/1447H (corresponding to ••/••/2025G))
Convening of the Company's Extraordinary General Assembly for the Transaction (second meeting) if the necessary quorum for the first meeting is not met; the quorum for the second meeting will be met if shareholders representing at least one-quarter of the voting rights in Red Sea Company are present.	One hour after the expiry of the period specified for the convening of the first meeting of the Extraordinary General Assembly in which the necessary quorum was not met
Publication on the Tadawul website of the Transaction resolution and other resolutions taken at the first or the second meeting of the Extraordinary Company's General Assembly for the Debt Conversion Transaction (or an announcement that the Extraordinary General Assembly was not convened in the event that the quorum is not met)	••/••/1447H (corresponding to ••/••/2025G))
2. Procedures in the event that the quorum for the first and second meetings of the Company's Extraordinary General Assembly is not met	
Tadawul website announcement of the invitation to the third meeting of the Company's Extraordinary General Assembly of for the Debt Conversion Transaction	••/••/1447H (corresponding to ••/••/2025G))
Commencement of the electronic voting period for the shareholders at the third meeting of the Company's Extraordinary General Assembly	••/••/1447H (corresponding to ••/••/2025G))
Convening of the third meeting of the Company's Extraordinary General Assembly for the Debt Conversion Transaction; the quorum for the convening of the third meeting of the Extraordinary General Assembly will be met regardless of the number of shares represented therein.	••/••/1447H (corresponding to ••/••/2025G))
Publication on the Tadawul website of the resolution to increase the Company's capital through debt conversion and other resolutions passed at the third meeting of the Company's Extraordinary General Assembly.	••/••/1447H (corresponding to ••/••/2025G))
3. Completion of the Transaction	
Submission to the Capital Market Authority of a copy of the Extraordinary General Assembly meeting minutes	– Within ten days of the date the Company's Extraordinary General Assembly approves the Transaction That is, on ••/••/1447H (corresponding to ••/••/2025G)) if a resolution to approve the Transaction is issued during the first or second meeting of the Company's Extraordinary General Assembly And on ••/••/1447H (corresponding to ••/••/2025G)) if a resolution to approve the Transaction is issued during the third meeting of the Company's Extraordinary General Assembly

Event	Timeline / Date
Issuance and listing of the New Shares on Tadawul and allocation thereof to the Creditors and depositing them in their portfolios as identified in this Circular	No earlier than the third trading period after the Capital Increase resolution becomes effective and no later than the sixth trading period after the Capital Increase resolution becomes effective
Amendment of the Company's Bylaws and commercial register	- Within fifteen days from the date of the Extraordinary General Assembly's approval of the capital increase on the Transaction resolution ٢٢/٢٢/١٤٤٧H (corresponding to ٢٢/٢٢/٢٠٢٥G)) if a resolution to approve the Transaction is issued during the first or second meeting of the Company's Extraordinary General Assembly - ٢٢/٢٢/١٤٤٧H (corresponding to ٢٢/٢٢/٢٠٢٥G)) if a resolution to approve the Transaction is issued during the third meeting of the Company's Extraordinary General Assembly

Source: Company Management

(1) Note: The above dates are approximate, and any changes to these dates will be announced on the Tadawul website (www.tadawul.com.sa).

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7. Definitions and Terminology

Term	Definition
Acquisition Agreement	The contract signed between the Company and the Selling Partners in First Fix on 20/11/1444H (corresponding to 09/06/2023G), which includes the terms and conditions related to the debt owed to the Selling Partners.
Advisors	Collectively, the Financial Advisor, Legal Advisor, and Auditor.
Al-Dabbagh Group	Al-Dabbagh Group Holding Company, a Saudi limited liability company pursuant to Commercial Register No. 4030088071 dated 07/01/1413H (corresponding to 07/07/1990G).
Obligor	The Company in its capacity as a n obligor in the Assignment Agreements.
Assigned Debt	The Amounts assigned by the Assignors to the Assignees as the context requires in the following manner: a. (SAR 25,502,739.32) in favor of Mohammed Haider bin Laden. b. (SAR 15,811,699.43) in favor of GhalebKhalid Al-Sharif.
Assignees	The Company's step in Creditors under the Assignment Agreements are: 1. Mohammed Haider bin Laden 2. Ghaleb Khalid Al-Sharif The Assignees have become direct Creditors of the Company as of 08/08/1446H (corresponding to 18/02/2024G).
Assignment Agreements	The two agreements signed among the Company, the Selling Partners, and the Assignees on 08/08/1445H (corresponding to 18/02/2024G), pursuant to which some of the Selling Partners assigned some of their financial rights under the Acquisition Agreement to the Assignees, pursuant to which the Assignees became direct Creditors of the Company on the date of signing the Assignment Agreements, and the addendums signed as part of both agreements on 19/02/1447H (corresponding to 13/08/2025G).
Assignors	The parties who have assigned certain rights under the Acquisition Agreement in favor of the Assignees under the Assignment Agreements, are: 1. MSB Company; and 2. Fares Ismat Al-Saadi.
Acquisition Creditors	The Selling Partners.
Auditor	Ernst & Young Professional Services
Bank or Al Rajhi Bank	Al Rajhi Investment Banking Company in its capacity as the Company's credit facility provider in respect of the fulfillment of the first installment of the First Fix acquisition
Board or Board of Directors	The Board of Directors of Red Sea International Company
Bylaws	The Company's Bylaws
Capital Increase	The proposed increase of the Company's capital by SAR (180,329,830) through the issuance of eighteen million, thirty-two thousand, nine hundred eighty-three (18,032,983) shares to the Creditors by means of converting their due debts.
Capital Market Law	The Capital Market Law promulgated by Royal Decree No. M/30 dated 02/06/1424H (corresponding to 31/07/2003G)
Circular or Shareholders Circular	This Shareholders Circular on the increase of the Company's capital [through] debt conversion, prepared by the Company in accordance with Article 74 of the Rules on the Offer of Securities and Continuing Obligations
Closing Price	The last trading price on the relevant trading day according to the mechanism specified by the Saudi Exchange (Tadawul)
CMA or Capital Market Authority	The Capital Market Authority in the Kingdom of Saudi Arabia
Companies Law	The Companies Law promulgated by Royal Decree No. M/132 dated 01/12/1443H (corresponding to 30/06/2022G)
Company's Extraordinary General Assembly for the Transaction	The meeting of the Company's Extraordinary General Assembly that will be held to vote on the Capital Increase by means of debt conversion and any other related resolutions
Completion of the Debt Conversion Transaction	The day on which the New Shares are listed on Tadawul in accordance with the terms and conditions of the Transaction agreements

Term	Definition
Conversion Factor	The agreed-upon valuation in respect of the New Shares in the Company for the benefit of the Creditors against the debts to be converted, which has been determined at a value of approximately SAR 26.40 per share in the Company, as described in Paragraph 9.7 (<i>Valuation of the Debt and the New Shares</i>) of Section 9 (<i>Conversion of the Debt into Shares Through Capital Increase</i>) of this Circular
Corporate Governance Regulations	The Corporate Governance Regulations issued by the Board of the Capital Market Authority pursuant to Resolution No. 8-16-2017 dated 16/5/1438H (corresponding to 13/2/2017G) based on the Companies Law promulgated by Royal Decree No. M/3 dated 28/1/1437H, as amended by Capital Market Authority Board Resolution No. 8-5-2023 dated 25/06/1444H (corresponding to 18/01/2023G) based on the Companies Law promulgated by Royal Decree No. M/132 dated 01/12/1443H (corresponding to 30/06/2022G)
Creditors	The Acquisition Creditors and Al-Dabbagh Group
Current Shareholders	The shareholders registered in the Company's shareholder register at the Securities Depository Center as on the publication date of this Circular
Debt	The total amounts owed by the Company as a result of the Acquisition Transaction, the Shareholders Loan, and the Assignment Agreement
Debt Conversion Agreement	The agreement concluded by and between the Company and Al-Dabbagh Group, which stated that the Company could settle its outstanding debts in favor of Al-Dabbagh Group under the Loan Agreements by means of debt conversion
Effectiveness of the Capital Increase Resolution	The issuance of the approval of the Company's Extraordinary General Assembly, approving the Transaction
Existing Shares	Thirty million, two hundred thirty-four thousand, four hundred (30,234,400) shares with a nominal value of ten Saudi riyals (SAR 10) per share, representing the entire capital of the Company as of the publication date of this Circular
Extraordinary General Assembly Meeting	A meeting of the Extraordinary General Assembly of Shareholders in the Company, convened in accordance with its Bylaws
Financial Advisor	Al Rajhi Capital Company ("Al Rajhi Capital")
Financial Statements	The financial data of the Company for the fiscal years ended 31 December 2020G, 2021G, and 2022G and the fiscal periods ended 30 September 2022G and 2023G
First Fix	Fundamental Installation Company, a Saudi closed joint stock company pursuant Commercial Register No. 4030279152
Fiscal Year	The year ending 31 December of each Gregorian calendar year
G	Gregorian Calendar
H	Hijri Calendar
Kingdom	The Kingdom of Saudi Arabia
Legal Advisor	King & Spalding Abdulaziz AlFahad Law Firm
Listed Shares	Shares or securities that have been accepted for listing on Tadawul
Listing	Listing securities on the Saudi Exchange (Tadawul)
Listing Rules	The listing rules of the Saudi Exchange (Tadawul) approved by Capital Market Authority Board Resolution No. 3-123-2017 dated 09/04/1439H (corresponding to 27/12/2017G) and its amendments.
Loan Agreements	The set of agreements concluded between the Company and Al-Dabbagh Group, pursuant to which the Company obtained a shareholder loan
Major Shareholder(s)	A person who owns 5% or more of the shares in the Company
Ministry of Commerce	The Ministry of Commerce in the Kingdom of Saudi Arabia
MSB Company	MSB Holding Company one-person company, a Saudi limited liability company pursuant to Commercial Register No. 4030293528 dated 07/06/1438H (corresponding to 06/03/2017G)
New Shares	The total shares to be issued to the Creditors as a result of the Transaction, numbering eighteen million, thirty-two thousand, nine hundred eighty-three (18,032,983) ordinary shares with a nominal value of ten Saudi riyals (SAR 10) per share
Obligor	The Company in its capacity as an obligor in the Assignment Agreements
Person	Any natural or legal person
Pro Forma Financial Information	The Company's pro forma financial statements for the nine-month period ended 30 September 2023G as if the Transaction had taken place on 1 January 2023G
Red Sea Company, the Company, or the Issuer	Red Sea International Company

Term	Definition
Registration and offering of the New Shares	The registration and offering of the New Shares in the Company in accordance with the Rules on the Offer of Securities and Continuing Obligations pursuant to an application to be submitted to the Capital Market Authority and the Saudi Exchange (Tadawul)
Related Parties	Meaning, in the context of the Rules on the Offer of Securities and Financial Obligations, the following: 1. Affiliates of the Issuer 2. Major shareholders in the Issuer 3. Board Members and senior executives of the Issuer 4. Board Members of affiliates of the Issuer 5. Board Members and senior executives of the major shareholders in the Issuer 6. Any relatives of the persons referred to in paragraphs 1, 2, 3, 4, 5 above Any company or other establishment controlled by any person referred to in paragraphs 1, 2, 3, 4, 5 above
Riyal	Saudi Riyal, the official currency of the Kingdom of Saudi Arabia
Rules on the Offer of Securities and Continuing Obligations	The Rules on the Offer of Securities and Continuing Obligations issued by the Capital Market Authority Board pursuant to Resolution No. 3-123-2017 dated 09/04/1439H (corresponding to 27/12/2017G), as amended by Capital Market Authority Board Resolution No. 1-531-2025 dated 21/11/1446H (corresponding to 19/05/2025G)
Saudi Exchange or Tadawul	Saudi Capital Market Company (Tadawul)
Selling Partners	The partners selling 51% of the capital of First Fix are: 1. MSB Company 2. Fares Ismat Al-Saadi 3. Ziad Jan Al-Sayegh
Senior Executives	Any natural person who manages and is responsible for the development and execution of the Company's strategic decisions, including the CEO, his deputies, and the CFO
Shareholders	The shareholders in the relevant Company
Shareholders Loan	The total amounts provided to the Company by Al-Dabbagh Group as a major shareholder in the Company and held under the loan contracts concluded on 18/05/1444H (corresponding to 12/12/2022G), 24/07/1444H (corresponding to 15/02/2023G) and 04/02/1445H (corresponding to 30/08/2023G)
Shares	Ordinary shares in the Company's capital, with a nominal value of ten Saudi riyals (SAR 10) per share
Net Subsequent Consideration	An amount of SAR 353,484,285, consisting of: 1. The second payment, an amount of SAR 294,170,000; 2. In addition to the closing accounts Correction Factor, an amount of SAR 100,628,724 due to the Selling Partners in First Fix; and 3. Deducting from it the amount of (41,314,439) Saudi Riyals that were assigned by the Selling Partners in favor of the Assignees under the Assignment Agreements.
Trading Period	The times during which shares may be bought and sold in the market as provided by Tadawul from time to time
Transaction Agreements	The agreements to which the Company is a party and pursuant to which the Company will convert its outstanding obligations to shares in the Company, namely, the Acquisition Agreement (and subsequent) and the Loan Agreements (and subsequent agreements including the Debt Conversion Agreement), and the Assignment Agreements.
Transaction or Debt Conversion Transaction	The proposed debt conversion transaction between the Company and the Creditors, through which the settlement of all of the Company's outstanding obligations will be transferred to the Creditors in exchange for the Company issuing the New Shares to the Creditors by increasing the Company's capital from SAR 302,340,000 to SAR 482,673,830
Subsequent Consideration before counting the Correction Factor	SAR (294,170,000) representing the initial value of the Subsequent Consideration before counting the Correction Factor.
The value of the Acquisition before counting the Correction Factor	SAR (544,170,000), representing the total value of the acquisition of 51% of FirstFix before calculating the Correction Factor.
Total Subsequent Consideration	SAR (394,798,724), representing the total value of the acquisition of 51% of First Fix (including Correction Factor) minus the cash amount paid out of SAR 250,000,000.
Total Acquisition Value	SAR (644,798,724) which represents the total value of the Acquisition, including the cash compensation paid at SAR (250,000,000) in addition to the Subsequent Consideration (after calculating the Correction Factor), which amounts to SAR (394,798,724).

Term	Definition
Correction Factor	SAR (100,628,724) representing 51% of the total Correction Factor resulting from the closing accounts statement of First Fix valuation totaling SAR (197,311,224). We note that the closing accounts have been calculated as follows: At the time of FirstFix's valuation, the accounts were prepared based on FirstFix's accounts as of 31 December 2022 (taking into account the results of the final closing accounts). The final closing accounts were prepared on September 30, 2023. The closing accounts calculations resulted in a correction factor of SAR 100.6 million on the total purchase price, for it to be SAR 644.8 million (instead of SAR 544.2 million). The details of calculating the closing accounts are as follows:
Conflicted Directors	means the Board members have an interest in the Transaction in their capacity as the owners or employees of Al-Dabbagh Group, such as managers or executives, as Al-Dabbagh Group directly owns 51% of the Company's capital and indirectly owns 19% thereof. Therefore, the total direct and indirect stake owned by Al-Dabbagh Group is 70% (before the Capital Increase), which makes it a major shareholder in the Company in addition to its capacity as one of the Creditors. The Company's Chairman, Amr Abdullah Mohammed Ali Al-Dabbagh (in his capacity as the indirect owner of 20% of Al-Dabbagh Group and the sole Director of Al-Dabbagh Group), Mohamed Hosni Jazeel (in his capacity as the Executive Director of Al-Dabbagh Group), and Shahad Khaled Nejaim (in her capacity as the Sustainability Director of Al-Dabbagh Group).

8. Risk Factors

Every Shareholder in Red Sea Company must read this section regarding risk factors and carefully and thoroughly study all the information contained therein prior to making any decision to approve or reject at the meeting of the Company's Extraordinary General Assembly for the Transaction. Every Shareholder in the Company must also read and study all the other information contained in this Circular, not just the risk factors set out below, as the risks mentioned in the Circular does not include all the risks that the Company may currently face or that have been observed before or on the issuance date of this Circular. It is worth mentioning that there may be risk factors other than those mentioned in this section. Such risks could adversely affect the merging company, but they are either unknown to the Company's Board of Directors on the issuance date of this Circular or they are not considered factors that could affect the Transaction on the issuance date of this Circular.

The occurrence of any of the risks described in this section would adversely and materially affect the Company's activity, financial position, results of its operations, financial and future flows, and share profitability. Furthermore, the occurrence of any other risks (other than the risks mentioned below) is either because the Company's Board of Directors is not currently aware of them or because those risks are not considered material as on the issuance date of this Circular. If any Shareholder needs any further explanation or has any doubts or concerns regarding the content of this Circular and/or the Transaction, they must seek private advice from an independent financial advisor licensed by the Capital Market Authority.

It should be noted that the arrangement of the risks below does not reflect the materiality of such risks or the probability of their occurrence.

8.1 Commercial Risks

8.1.1 Risks Related to Insufficient Cash Flows, Inability to Obtain Necessary Loans and Financing, and/ or Inability to Distribute Future Dividends

The Company consistently requires large capital expenditures to invest directly or indirectly (through acquisitions) in the development of real estate and land, expand its operations, and carry out ongoing maintenance and improvement work in compliance with the relevant regulatory requirements or new standards adopted by Management, or for the purpose of addressing unexpected liabilities and obligations. It is worth mentioning that the net cash used in investment activities amounted to one hundred twenty-eight million, four hundred sixty-five thousand (128,465,000) Saudi Riyals as on 31 December 2023G. It should be noted that there is no guarantee that the Debt Conversion Transaction will contribute to the adequacy of the cash flow from the Company's existing operations and capital investments in the long term at an appropriate time and at appropriate costs and conditions. It should also be noted that the total value of loans to the Company amounts to three hundred twenty-seven million, four hundred twenty-five Saudi Riyals (SAR 327,425,000) as on 31 December 2023G. In the event that the Company is unable to obtain the necessary loans and financing or the Company's cash flow is inadequate, this will have an adverse impact on the Company's business, financial position, results of operations, and future prospects, in particular an adverse impact on its ability to distribute dividends in the future.

8.1.2 Risks Related to Failure to Complete the Debt Conversion Transaction

In addition to the approvals required to increase the capital for the purpose of debt conversion, the Completion of the Debt Conversion Transaction requires the transfer of all the debts incumbent on the Company to the Creditors pursuant to the Acquisition Agreement, the Assignment Agreement and the Debt Conversion Agreement, consisting in the Company's issuance of new shares in the Company to the Selling Partners, the Assignees, and Al-Dabbagh Group in its capacity as a shareholder in the Company with a value equivalent to four hundred and seventy-six million, twenty-three thousand eight hundred and twenty-one (476,023,821) Saudi riyals. Divided as follows: SAR (353,484,285) in favor of the Selling Partners, SAR (41,314,439) in favor of the Assignees, and SAR (81,225,097) in favor of Al-Dabbagh Group. It is worth noting that all Creditors are direct creditors of the company. In case any of the parties breaches these agreements or terminates them before the effective date of the Transaction, we note that the Selling Partners' are entitled to reclaim an amount of the sold shares equal to 23.7% of the total capital of First Fix in the event that the Company is unable to issue the New Shares or pay the Net Subsequent Consideration, which is three hundred ninety-four million, seven hundred ninety-eight thousand, seven hundred twenty-four Saudi Riyals (SAR 394,798,724), in cash during the period agreed upon under the Acquisition Agreement. If the Selling Partners enforce their right to reclaim, the Company's stake in First Fix will decline to 23.43% of the capital of First Fix, whereas the Company currently owns 51% of the capital of First Fix. This will cause the Company to lose a controlling stake in First Fix. This is in addition to the risks associated with the Assignees requiring the Company to pay the amounts assigned to them, which are (41,314,439) Saudi riyals in cash, which will have an adverse impact on the Company's business, financial position, results of its operations, and future prospects. We also note the risks of the company's indebtedness in relation to the shareholder loan if it is not discharged through the Transaction, which will adversely impact the Company's capital structure and financial position. For further details on the Transaction, please refer to Section 9 (*Conversion of the Debt into Shares Through Capital Increase*) of this Circular.

8.1.3 Risks Related to Failure to Achieve the Objective of the Debt Conversion

Through the Debt Conversion, the Company aims to decrease the cumulative loss percentage and meet the requirements of the Companies Law with regard to cumulative losses. According to the latest initial financial statements dated 30/06/2025, the accumulated losses amounted to two hundred and ninety-five million four hundred and eighty thousand (295,480,000) Saudi Riyals, which constitutes 97.73% of the company's capital, as well as to support the Company's solvency and enhance its ability to obtain new debt financing (loans, sukuk, etc.) for future growth opportunities, and to strengthen the Company's overall financial position. It should be noted that the Company's financial obligations are difficult to predict, and the Company's aspirations may not be achieved through this Transaction. This would cause the Company to be unable to achieve its desired objectives from the Debt Conversion Transaction. For further details in this regard, please refer to paragraph 9.2 (*Reasons for the Debt Conversion*) of this Circular.

8.1.4 Risks Related to Liquidity and Cumulative Losses

On 20/10/1444H (corresponding to 10/05/2023G), the Company announced that its cumulative losses amounted to 57.04% of its capital as on 07/06/1444H (corresponding to 31/12/2022G). According to the latest preliminary financial statements dated 30/06/2025, the accumulated losses amounted to two hundred and ninety-five million four hundred and eighty thousand (295,480,000) Saudi Riyals, which constitutes 97.73% of the company's capital. The Company's losses for the past fiscal periods are due to several reasons, including the absorption of non-cash losses (depreciation of assets and provisions) arising from the Company's international operations, mainly from Ghana and Malaysia, as well as decreased revenues and increased general and administrative expenses. This impacted the Company's results, which made the Company subject to the Procedures and Instructions Related to Listed Companies with Accumulated Losses Reaching 20% or More of Their Share Capital. Any additional losses incurred by the Company in the future will affect the availability of liquidity necessary to cover the Company's business and plans, which will have an adverse impact on the Company's business, financial position, results of its operations, and future prospects.

8.1.5 Risks Related to the Going Concern and Qualified Opinion Disclosed in the Company's Financial Statements for Past Fiscal Years

It should be noted that in the initial financial statements for Q1 of 2025G and for the previous fiscal years, the Company's Auditor (Ernst & Young Professional Services) disclosed that the Company's cumulative losses amounted to SAR 294.5million as on 31 March 2024G (representing 97.4% of the Company's capital), SAR 206.8. million as on 31 December 2023G (representing 68.4% of the Company's capital), and SAR 172.5 million as on 31 December 2022G (representing 57% of the Company's capital). In addition, it was disclosed that the Company's current liabilities exceeded its current assets by SAR 128.2 million as on 31 March 2025G (and were SAR 232.1 million riyals as on 31 December 2024G and an amount of 328.9 Million Saudi Riyals as on 31 December 2023G and an amount of 201.5 Million Saudi Riyals as on 31 December 2022G). According to the latest initial financial statements dated 30/06/2025, the accumulated losses amounted to two hundred and ninety-five million four hundred and eighty thousand (295,480,000) Saudi Riyals, which constitutes 97.73% of the company's capital. This led to breaches related to the undertakings given by the Company to commercial banks in relation to short-term loans, as the short-term loan agreement for Premier Paint Company (a subsidiary) is subject to binding undertakings; Premier Paint Company has to satisfy key financial parameters, and Premier Paint Company has not maintained the net profit rate as specified in the facility agreement. It should be noted that these events and circumstances indicate significant uncertainty that raises considerable doubts about the Company's ability to continue its business on a going concern basis. If the Company is unable to restructure its equity, arrange for financing facilities, conclude profitable contracts, and increase its revenues, this will adversely impact the Company and its financial position, and there is no guarantee that the Company will be able to do so. Furthermore, the financial statements for the fiscal years 2023 and 2024, as well as the first quarter of 2025, included a qualified opinion from the Company's Auditor. This was due to an option in the Shareholders Agreement signed on 1 October 2023, which allows the Company to purchase additional shares in First Fix (or for the Selling Partners of First Fix to sell additional shares to the Company) under certain conditions and within an agreed timeframe. The Company was required to account for these options as of 31 December 2023, based on an appropriate valuation, but it had not recognized these options as of the date of this Circular. This constitutes a violation of International Financial Reporting Standards (IFRS). Failure to comply with IFRS may lead to legal liabilities and a loss of investor confidence, negatively impacting the Company's reputation and its ability to attract investments. It may also hinder access to financing and affect the Company's valuation and internal operations. There is no guarantee that the Company will consistently adhere to IFRS accounting standards, which could adversely affect its financial performance, operating results, and financial position.

8.1.6 Risks Related to the Potential Impairment of Assets Resulting from the Acquisition

In the context of the Acquisition Agreement, the terms of the agreement provided that the Selling Partners are entitled to clawback an amount of the sold shares equal to 23.7% of the total capital of First Fix in the event that the Company is unable to issue the New Shares or pay the Net Subsequent Consideration of Three hundred and fifty three million four hundred and eighty four thousand two hundred and eighty five (SAR 353,484,285) Saudi Riyals in cash during the period agreed upon under the Acquisition Agreement, which was constructively extended by virtue of the Company's submission to CMA of an application for Capital Increase by means of debt conversion, in accordance with the Acquisition Agreement. If the Selling Partners enforce their right to clawback, the Company's stake in First Fix will decline to 27.3%. As the stake in First Fix has been transferred to the Company and has therefore been registered as part of the Company's assets, the failure to complete the Transaction or the

Company's failure to settle the Net Subsequent Consideration in cash will cause a decline in the total value of the Company's assets, as the value of this stake represents 27.3% of the total value of the Company's assets according to the pro forma financial information as on 30 September 2023G.

8.1.7 Risks Related to Failure to Meet Strategic Growth Objectives

In its business, the Company focuses on four main areas: manufacturing, infrastructure, facility management, and hospitality. The Company periodically evaluates opportunities for expansion and growth by targeting work on specific projects in those areas. The Company aims to work with both the public and private sectors. It is worth mentioning that the achievement of the Company's strategic growth objectives substantially depends on the capabilities of the executive management team, and on its ability to attract employees and workers with high-level experience and technical skills. It is also noted that there is no guarantee that the Debt Conversion Transaction will contribute to the Company's ability to achieve its strategic growth objectives. If the Company is unable to achieve its strategic growth objectives, this will have an adverse impact on the Company's business, financial position, results of operations, and future prospects.

8.1.8 General Financial Risks Related to the Company

Table 8.1: Comparison of the Company's Financial Information for the Fiscal Periods Ending December 2021G, December 2022G, December 2023G, and for a period of three months ending 31 March 2024, 31 March 2025G

	SAR (in thousands)					
Revenues	468,201	404,207	1,378,489	2,984,238	659,214	700,663
Cost of Revenue	(496,545)	(460,803)	(1,268,890)	(2,637,193)	(592,064)	(608,172)
As a percentage of revenues	106.1%	114.0%	92.0%	88.40%	%89.8	86.8%
Operating profit (loss)	(109,380)	(186,072)	6,369	70,132	3,263	19,115
Profit/Loss per share	(4.31)	(6.49)	(1.59)	(2.06)	(0.63)	(0.37)
Trade Receivables	156,370	126,805	389,740	529,489	307,539	709,028
Growth (Decrease) percentage	-	-19%	207.4%	35.9%	-	130.5%
Advances to Suppliers	77,906	79,940	487,417	391,713	412,083	361,571
Growth percentage	-	3%	509.7%	-19.6%	-	-12.3%
Payables and Other Current Liabilities	178,556	172,676	349,004	451,540	399,127	482,387
Growth (Decrease) percentage	-	-3%	102.1%	29.4%	-	20.9%
Trade Payables	194,902	172,695	440,721	558,058	366,737	653,942
Growth (Decrease) percentage	-	-11%	155.2%	26.6%	-	78.3%

Cost of Revenue: It is noted that the cost of revenues amounted to 106.1%, 114%, and 92% and 88.4% for the fiscal years 2021G, 2022G, 2023G, and 2024G respectively and 89.8% as on 31 March 2024G and 86.8% as on 31 March 2025G. It should be noted that the increased cost of revenue is the main cause driver of the operating losses recorded during past years. It should be noted that the Company should reduce these cost percentages to improve the results of its operations in the future. There is no guarantee that the Company will be able to reduce these costs. That would result in losses, thereby adversely impacting the results of its operations.

Trade Receivables: The Company's receivables amounted to SAR 709.0 million for the period of three months ending on 31 March 2025G, marking an increase of 33.9% relative to the Company's financial position as on 31 December 2024G. It should also be noted that receivables increased significantly in 2023G and 2024G, with an increase of 207.4% and 35.9% respectively. We point out that the high value of the Company's receivables increases the risk that the Company will be unable to collect. That would adversely impact the Company's working capital, financial position, and results of operations.

Advances to Suppliers: Advance payments to suppliers reached SAR 361.5 for the period of three months ending in 2025 (SAR 391.7 as of 31 December 2024G). with disregard to the decrease of the advance payments to suppliers compared to previous years/periods, we note that the increase value of the advance payments to suppliers adversely affect the company's availability of cash flow. Especially in the event of the company's inability to collect in the agreed suitable times, which affect the company's ability to maintain the operational commitments for short and long terms that also might negatively affect the cash flow and the financial position of the company.

Payables and Other Current Liabilities: Payables and other current liabilities (which include project operating costs, financial reserves, employee salaries, and professional and consulting expenses) increased by 102.1% in 2023G compared to 2022G, and 24.4% in 2024G compared to 2023G reaching a total of SAR 451.5, as on 31 December 2024G. It should be noted that if these payables increase in a manner inconsistent with the growth of the Company and/or its ability to collect receivables and/or other financial dues at appropriate times, it will cause the Company to be late and/or unable to pay those amounts to their intended recipients, leading to default. This would in turn adversely impact the Company's working capital, operations, financial position, and results of operations.

Trade Payables: Trade payables increased by 155. % in 2023G compared to 2022G, and 26.6% in 2024G compared to 2023G reaching a total of SAR 558.1. for about 17% to reach the amount of SAR 653.9 million for the last three months in 2025G. It should be noted that if these amounts increase in a manner inconsistent with the growth of the Company and/or its ability to collect receivables and/or other financial dues at appropriate times, it will cause the Company to be late and/or unable to pay those amounts to suppliers and/or others, leading to default. This would in turn adversely impact the Company's working capital, operations, financial position, and results of operations.

8.2 Risks Related to the Transaction and the Issuance of New Shares

8.2.1 Risks Related to Failure to Achieve the Desired Added Value from the Debt Conversion Transaction

Through the Debt Conversion, the Company aims to decrease the cumulative loss percentage, support its solvency, and enhance its financial position in general. It should be noted that it is likely that negative future events related to the financial performance of the Company will occur for economic and/or commercial reasons. Accordingly, it is not possible to give assurances that any of the desired results of the Debt Conversion will be achieved. In the event that the desired results of the Debt Conversion are not achieved in whole or in part, this will affect the financial performance of the Company and the results of its operations after the completion of the Transaction. In addition, as the structure of the Transaction is the first of its kind in the Company's history, it cannot be guaranteed that it will be positively received and accepted by the market and the public, thus adversely impacting the Company's share price.

8.2.2 Risks Related to Reduced Earnings Per Share

It should be noted that the Debt Conversion Transaction requires the issuance of eighteen million, thirty-two thousand, nine hundred eighty-three (18,032,983) new shares. As such, the number of Company shares after the Capital Increase will be forty-eight million, two hundred sixty-seven thousand, three hundred eighty-three (48,267,383) ordinary shares. Upon comparison to the Company's current 30,234,400 shares, it is evident that any projected future profits will be divided among a larger number of shares, which means lower earnings per share.

8.2.3 Risks Related to the Sale of a Large Number of Shares

The Debt Conversion Transaction may adversely affect the price of the Company's shares on the Saudi Exchange if the Creditors sell a large number of the New Shares, which number eighteen million, thirty-two thousand, nine hundred eighty-three (18,032,983) shares. Except for Al-Dabbagh Group, none of the Creditors (prior to the Completion of the Debt Conversion Transaction) owns any shares in the Company. The completion of the Transaction will result in the Creditors owning directly the equivalent of 37.36% of the Company's capital (excluding Al-Dabbagh Group's current stake in the Company's capital, as Al-Dabbagh Group directly owns 51% of the Company's capital and indirectly owns 19% thereof, so that the total direct and indirect holdings amount to 70% of the Company's capital before the Capital Increase. This percentage will decrease as a result of the Transaction, such that the direct stake in the Company's capital will be 38.32%, while the indirect stake will decrease to 11.9% of the Company's capital. Therefore, the total direct and indirect holdings will be 50.22% of the Company's capital when the Capital Increase resolution becomes effective). For further details on changes in capital and the ownership of the New Shares, please refer to Section 9 (*Conversion of the Debt into Shares Through Capital Increase*) of this Circular. It should also be noted that there is no guarantee that a large number of shares will not be sold by the public at any time, which would in turn adversely impact the Company's share price in the market.

8.2.4 Risks Related to Changes in Shareholding Percentages

The Debt Conversion Transaction will be carried out by settling the outstanding debts owed by the Company to the Creditors through the issuance of new shares in the Company. Following the completion of the Transaction and the Capital Increase, the Creditors will directly own 37.36% of the Company's capital (excluding Al-Dabbagh Group's current stake in the Company's capital, as Al-Dabbagh Group directly owns 51% of the Company's capital and indirectly owns 19% thereof, so that the total direct and indirect holdings amount to 70% of the Company's capital before the Capital Increase. This percentage will decrease as a result of the Transaction, such that the direct stake in the Company's capital will be 38.32%, while the indirect stake will decrease to 11.9% of the Company's capital. Therefore, the total direct and indirect holdings will be 50.22% of the Company's capital when the Capital Increase resolution becomes effective). Concurrently, the Current Shareholders' ownership will decrease to 62.64%, whereas their holdings represented 100% of the Company before the completion of the Transaction. Thus, their ability to influence decisions that require the approval of the Company's shareholders, including the selection of Board Members and other important strategic decisions for the Company, will be reduced.

8.2.5 Risks Associated with Potential Control by the Creditors

Upon the completion of the Transaction, the Creditors' total holdings in the Company's capital will amount to 37.36% (excluding Al-Dabbagh Group's current stake in the Company), as follows:

Table 8.2: Illustration of the Outstanding Debt Owed to each Creditor and the Number of Shares to be Issued Pursuant to the Agreed-Upon Conversion Factor

Creditor	Number of New Shares Granted	Total Direct Ownership Percentage After the Transaction (Excluding Al-Dabbagh Group's current stake in the Company's capital)
MSB Holding Company	9,503,072	19.69%
Fares Ismat Al-Saadi	2,392,207	4.96%
Ziad Jan Al-Sayegh	1,495,597	3.10%
Mohammed Haider bin Laden	966,108	2.00%
Ghaleb bin Khalid Al-Sharif	598,987	1.24%
Al-Dabbagh Group	3,077,012	6.37%

Accordingly, the Creditors will own a controlling stake in the Company. After the completion of the Transaction, they will be able to influence the Company's business through the ability to influence decisions made and General Assembly approvals, such as decisions related to the appointment of Board of Directors members or fundamental decisions related to the Company's business, the distribution of dividends, or the adjustment of the capital. Also, Al-Dabbagh Group's stake will shrink. It owned 51% of the Company's capital directly and 19% indirectly, so that the total direct and indirect holdings amounted to 70% of the Company's capital before the Capital Increase. This percentage will decrease as a result of the Transaction, such that the direct stake in the Company's capital will be 38.32%, while the indirect stake will decrease to 11.9% of the Company's capital. Therefore, the total direct and indirect holdings will be 50.22% of the Company's capital when the Capital Increase resolution becomes effective.

8.2.6 Risks related to the Company's Share Price and its Increase in the Market Compared to the Agreed Valuation

According to the Acquisition Agreement, the Assignment Agreements, and the Debt Conversion Agreement, it was agreed between the Company and the Creditors that the Company's share price for the purpose of the Transaction will be approximately SAR 26.40 per share, based on the average Closing Price of the Company's shares listed on Tadawul over a period of five (5) trading days prior to the signing date of the Acquisition Agreement, i.e., the weighted average daily trading volume of a traded share in the Company in the period from 15/11/1444H (corresponding to 04/06/2023G) until 19/11/1444H (corresponding to 08/06/2023G), which is approximately SAR 26.40 per share. It should be noted that the agreed price of the Company's shares depends on the valuation method specified in the Acquisition Agreement, which is that if the Buyer (Company) chooses to settle the additional in-kind consideration through shares in Red Sea Company, the total number of shares allocated to the Selling Partners in First Fix is calculated according to the following formula: $A \div b$, where (a) is the Subsequent Consideration and (b) is the weighted average of the daily Closing Price of the Company's shares within five trading days before signing Acquisition Agreement. Accordingly, the Company's Financial Advisor (Al Rajhi Capital) calculated the Company's share price according to the agreed valuation method. The following is a detailed table showing the valuation method for the Company's share price for the purpose of the Transaction:

Table 8.3: Analysis of the Agreed Conversion Factor and the Company's Share Price on the Relevant Dates

Date	Daily Trading Volume	Daily Value	Daily Volume-Weighted Average Price
19/11/1444H (corresponding to 08/06/2023G)	70,615	1,858,052	26.31
18/11/1444H (corresponding to 07/06/2023G)	138,462	3,659,909	26.43
17/11/1444H (corresponding to 06/06/2023G)	59,223	1,553,281	26.23
16/11/1444H (corresponding to 05/06/2023G)	65,377	1,724,334	26.38
15/11/1444H (corresponding to 04/06/2023G)	157,499	4,195,627	26.64
Total / Average:	491,176	12,991,203	26.40

Accordingly, the shares in the Company to be issued to the Creditors was calculated at eighteen million, thirty-two thousand, nine hundred eighty-three (18,032,983) ordinary shares.

It should be noted that the Company's share price is subject to increase or decrease until the completion date of the Transaction

(that is, the date on which the New Shares are issued to the Creditors). The Acquisition Agreement, the Assignment Agreements, and the Debt Conversion Agreement do not provide for the number of new shares to be changed based on a change in the Company's share price. Accordingly, the Company's agreed share price will be relied upon. Therefore, eighteen million, thirty-two thousand, nine hundred eighty-three (18,032,983) ordinary shares will be issued to the Creditors. Thus, the profits will be divided by the number of Existing Shares of the Company, amounting to 30,234,400 ordinary shares, plus the New Shares (amounting to 18,032,983 ordinary shares), that is, the total number of shares of the Company after the completion of the Transaction will be 48,267,383 ordinary shares. It should also be noted that the Acquisition Agreement, the Assignment Agreements, and the Debt Conversion Agreement do not provide for the number of new shares to be changed based on a change in the Company's share price. A lesser number of new shares will not be issued in the event of an increase in the Company's share price. It is worth noting that dividing profits by a larger number of shares leads to a decrease in the profitability of each share for existing shareholders. For further information about this risk, please refer to Section 10.3 of this Circular (*Company Share Price Performance*).

8.2.7 Risks Associated with Potential Fluctuations in the Company's Share Price After the Completion of the Transaction

The Company's share price may undergo fluctuations after the completion of the Transaction due to a number of factors. These include a change in results, any regulatory changes in the Company's field of business, conditions and trends in the Company's field of business, its inability to implement its future plans, the entry of new competitors into the market, announcements by the Company or any of its competitors regarding mergers or acquisitions, the formation of strategic alliances and joint ventures, the Company's sale of its shares in any of its subsidiaries, or changes made by experts and securities analysts regarding financial performance forecasts. Such factors may negatively affect the trading price of the Company's shares regardless of the actual performance of the Company. Shareholders should be aware that the Company's share price (including the shares to be issued to the Creditors) and the profits derived therefrom may increase or decrease as with any other investments in market-listed securities.

8.2.8 Risks Associated with the Costs of Completing the Transaction

The Company will incur some non-recurring expenses associated with the Transaction, including consultants' fees and other related costs. These costs amount to approximately six million Saudi Riyals (SAR 6,000,000). The Company will incur these costs regardless of whether the Transaction is completed, which will affect the financial position of the Company in the event that the Transaction is not completed and the desired benefit is not realized.

8.3 Legal Risks

8.3.1 Risks Associated with the Acquisition Agreement

The Company entered into a share purchase contract with the Selling Partners in First Fix on 20/11/1444H (corresponding to 09/06/2023G)(the Acquisition Agreement) (for further information on the Acquisition Agreement, please refer to Section 11 (*Legal Information*) of this Circular). The Acquisition Agreement included a number of guarantees, undertakings, and mutual promises from the parties to the transaction. These undertakings include some conditions related to the fulfillment of some commercial and financial conditions by the Selling Partners, First Fix, and the Company. These include, for example, that business at both the Company and First Fix would continue in the manner preceding the Acquisition and that the Company would obtain certain approvals, including the approval of CMA and the Company's Extraordinary General Assembly to issue the New Shares. The guarantees included in the Agreement included First Fix's ability to recover some of the proceeds owed to it. The Agreement also provided that the Selling Partners are entitled to reclaim an amount of the sold shares equal to 27.57% of the total capital of First Fix in the event that the Company is unable to issue the New Shares or pay the Subsequent Consideration of three hundred ninety-four million, seven hundred ninety-eight thousand, seven hundred twenty-four Saudi Riyals (SAR 394,798,724) in cash during the period agreed under the Acquisition Agreement. That period was extended by virtue of the Company's submission to the CMA of an application for Capital Increase by means of debt conversion, in accordance with the terms of the Acquisition Agreement, which provided that the Selling Partners are obliged to extend this approval period if the legal procedures of the application takes longer than the specified schedule. It is worth mentioning that two of the Selling Partners assigned some of the rights received by them under the Acquisition Agreement in favor of the Assignees with a total of SAR (41,314,439), which resulted in the entitlement of the Selling Partners to the subsequent net compensation amounting to SAR (353,484,285). For further details on the Assignment Agreements, please refer to paragraph (11.4.2) (the "*Assignment Agreement*") of Section 11 ("*Legal Information*") of this Circular.

If the Selling Partners enforce their right to clawback, after the Assignment, the Company's stake in First Fix will decline to 27.3%, causing the Company to lose a controlling stake in First Fix, which may affect the Company's expectations from the Acquisition Transaction. Furthermore, the Selling Partners might request the Company to pay an amount equal to the Correction Factor on the purchase price, made based on the results of the closing accounts process, which totals one hundred million six hundred twenty-eight thousand seven hundred twenty-four (100,628,724) Saudi Riyals. Whereas, two of the Selling Partners have assigned part of their claim to the Assignees. This amount will be calculated proportionally with the remaining amount of Shares for the company in First Fix after exercising the Clawback right, by the Selling Partners, after factoring in the Assignment, which is 23.7%, which means that the amount that the Company may be required to pay SAR 27,473,852. If the Selling Partners are required to pay this amount, the company will face financial risks of financial pressures, particularly on liquidity, working capital and cash flow. In addition, the Company may enter into judicial and legal proceedings in the event of its inability to pay, which will adversely affect its financial position and performance of operations.

8.3.2 Risks Associated with the Acquisition Financing Agreement

The Company entered into a financing agreement with Al Rajhi Bank (the “Bank”) worth three hundred thirty million Saudi Riyals (SAR 330,000,000) on 15/08/1444H (corresponding to 07/03/2023G) for the purpose of financing the first payment of the Acquisition, consisting in cash consideration. It should be noted that the total amount of the financing was set before the valuation of the final cash consideration in relation to the Acquisition was completed. After negotiations, the value of the final consideration was set at two hundred fifty million Saudi Riyals (SAR 250,000,000), which was paid on 16/03/1445H (corresponding to 01/10/2023G), which was also the transfer date of the Selling Partners' shares in First Fix. The Company did not liquidate the rest of the excess financing, which is eighty million Saudi Riyals (SAR 80,000,000). For more information about the financing agreement, please refer to Section 11 (*Legal Information*) of this Circular. This agreement included a number of risks that the Company shareholders should take into account when voting on the Transaction resolution, including the Company's mortgage of its stake in First Fix. The terms of the agreement included the Bank's ability to liquidate this stake in addition to the rest of the mortgaged assets in favor of the Bank under the agreement if the Company fails to repay the borrowed funds in whole or in part. We also refer to the Company's contractual obligation to maintain its stake in First Fix, in addition to the Company's waiver of any dividends and profits the Company receives from First Fix in favor of the Bank. We refer here to the fact that if the Debt Conversion Transaction fails and the Company is unable to complete the second payment of the consideration in cash, this will cause the Company to be in violation of the terms of the financing agreement because the Selling Partners could potentially exercise their right to reclaim referred to in Paragraph 8.3.1 (*Risks Associated with the Acquisition Agreement*) above. Moreover, the Company has undertaken to the Bank to waive the project revenues accepted by the Bank for a coverage ratio equal to 200% of the annual payment. The Company is obliged not to distribute any profits without obtaining the written approval of the Bank.

8.3.3 Risks Associated with the Company's Financing Agreements

On the date of the issuance of this Circular, the Company has a number of existing financing agreements and coordination with a number of local banks. These include clauses stating that the financing Bank may terminate the agreements if control of the Company changes or the Company incurs any debts outside the scope of the relevant facility agreements without obtaining the approval of the relevant party. Among these, we mention the Sharia-compliant facility agreement concluded with Saudi Awwal Bank on 16/04/1445H (corresponding to 31/10/2023G), the tawarruq agreement concluded with Banque Saudi Fransi on 18/03/1445H (corresponding to 03/10/2023G), and the related facility agreements. We note that any of the parties to the aforementioned financing agreements (in addition to the financing agreement concluded with Al Rajhi Bank) could exercise their contractual rights, which may include enforcement against the Company's assets pursuant to the promissory notes signed by the Company in favor of the relevant banks, in the event that the Company breaches its contractual obligations in the manner referenced.

8.3.4 Risks Associated with the Debt Agreements Between the Company and Al-Dabbagh Group

The Company concluded three agreements with Al-Dabbagh Group, under which the Company obtained a total amount of eighty-one million, two hundred twenty-five thousand, ninety-seven Saudi Riyals (SAR 81,225,097) in financing from Al-Dabbagh Group. It is worth noting that the debt agreements state that the debts owed to Al-Dabbagh Group are subordinate to any other debts and obligations incurred by the Company. We note that the agreements stipulate that each of the parties has the right to transfer its rights under the agreement to other parties. In this case, this might change the way the relevant creditor treats the Company and the commercial terms related to these agreements.

8.3.5 Risks Associated with the Assignment Agreements

The Company ratified two Assignment Agreements, under which (1) MSB Holding Company and (2) Fares Ismat Al-Saadi assigned part of the financial rights due to them under the Acquisition Agreement to (1) Mohammed Haider bin Laden and (2) Ghaleb bin Khalid Al-Sharif. This was accomplished by means Fares Ismat Al-Saadi assigned an amount of (15,811,699.43) Saudi riyals in favor of Ghaleb bin Khalid Al-Sharif, as well as MSB Holding Company assigned an amount of (25,502,739.32) Saudi riyals in favor of Mohammed Haider bin Laden, which resulted in Mohammed Haider bin Laden and Ghaleb bin Khalid Al-Sharif replacing MSB Holding Company and Fares Ismat Al-Saadi with the amounts directly agreed upon by the company. In the event that the Company is unable to complete the transaction and issue shares to the Assignees, the Assignees have the ability to legally oblige the Company to pay the amounts due in their favor amounting to SAR (41,314,439) in cash, as set out in paragraph (11.4.2) (*Assignment Agreement*) of Section (11) (*Legal Information*) of this Circular. It should also be noted that the amounts assigned to the Assignees included the assignment of all rights and obligations associated with these amounts, which means that part of the guarantees granted to the Assignees will pass to the assignee, including the claim of a percentage of the Clawback Shares, as indicated in Risk Factor (8.3.6) (*Risk Associated with Clawback Shares*) below. We note here that the multiplicity of the Company's payables constitutes a risk factor, as each of these Creditors can file a lawsuit against the Company, leading to an increase in legal fees and/or financial obligations for the Company. It should be noted that if any of the Company's Creditors resorts to the judiciary through arbitration or referral of the matter to the competent courts within the Kingdom, and if the Company fails to meet the Creditors' demands, this will have adverse impact on the Company and its financial position.

8.3.6 Risk Associated with Clawback Shares

It should be noted that if the company is unable to complete the Debt Conversion Transaction, this will result in the Selling Partners having the right to demand that the Company return the Clawback shares in First Fix to the Selling Partners to the extent agreed upon under the Acquisition Agreement. Whereas some of the Selling Partners assigned some of the rights arising from them under

the Acquisition Agreement (with the Company's approval) in favor of Assignees, with the fact that MSB Company assigned an amount of (25,502,739.32) Saudi riyals in favor of Mohammed Haider bin Laden, and Fares Ismat Al-Saadi assigned an amount of (15,811,699.43) Saudi riyals in favor of Ghaleb bin Khalid Al-Sharif, which gives the Assignees the right to file a legal claim to pay these shares, As part of the rights associated with the amounts assigned. In this case, the company may be obligated to return the entire Clawback shares according to the total subsequent compensation (including the Assignees replacing those Assigning these rights according to the shares assigned to them. Thus, the Company's share in First Fix may decline to 23.43%. This may give rise to legal claims against the Company, which may negatively affect its financial position or market reputation, especially if binding rulings are issued in favor of the Assignees. It should be noted that if the Company is obliged to return the full Clawback Shares as per the Total Subsequent Consideration and/or the Net Subsequent Consideration, the Company will lose its control over FirstFix, which in turn will limit the Company's ability to affect decisions at FirstFix and may affect the Company's expectations of the Acquisition. If that is done, there will be a negative impact on the Company's business, financial position, operational results and future prospects For more information about Clawback Shares, please see Section (11) ("*Legal Information*") of this circular.

8.3.7 Risks Associated with Statutory Approvals

The Company seeks to obtain all the necessary statutory approvals from the various legislative and supervisory authorities in relation to the Transaction. Accordingly, the Company is working to meet all the legal conditions and requirements related to this. Due to the application of relatively new laws and regulations regarding debt conversions, and due to the Company's need to communicate with more than one regulating authority, including, but not limited to, the Ministry of Commerce, the Capital Market Authority, and the Saudi Exchange, the Company may encounter some risks from the application of certain legal requirements pertaining to the Transaction. This might result in adverse impacts, such as penalties or otherwise.

8.3.8 Risks Associated with Complying with Statutory Requirements

The Debt Conversion will be subject to a number of laws and regulations issued by various official entities in the Kingdom. These include the Companies Law and its executive regulations and the Capital Market Law and its executive regulations, for example the Rules on the Offer of Securities and Continuing Obligations and the Corporate Governance Regulations, especially with respect to the disclosures and announcements the Company must make regarding the origin of the Debt and material developments regarding the Transaction. The Company's non-compliance with these requirements could expose it to various penalties by the Capital Market Authority as a result of such violations which may have a negative impact on the Company's operations, financial position and business results. As the Transaction represents a dealing with a related party, as explained in various parts in this Circular, it should be noted that there may be errors in the Company's application of some relevant statutory provisions, especially those related to obtaining the necessary internal approvals and compliance with the relevant regulations. This could cause the CMA to impose fines and penalties against the Company as a result of such violations. For more information about the Conflicted Directors, please refer to Paragraph 9.9 (*Details of Related Parties with a Direct or Indirect Interest in the Transaction*) of Section 9 (*Conversion of the Debt into Shares Through Capital Increase*) and Section 11 ("*Legal Information*") of this Circular. Given the Company's financial

position and the percentage of cumulative capital losses prior to the Capital Increase, the Company is obliged to follow the procedures set forth in Article 132 of the Companies Law. The Company's Board of Directors did not convene in a General Assembly within the period specified in Article (132) of the Companies Law, which is one hundred eighty (180) days from the date where the Board became aware of such losses, in order to consider the continuation of the Company with any of the necessary measures to address or to dissolve the Company, and the members of the Company's Board of Directors were penalized by the Board of the CMA on 08/10/1445H (corresponding to 17/04/2024G) as a result of violating Article one hundred and thirty two and paragraph (b) of Article two hundred sixty two of the Companies Law, based on paragraph (2) of Article two hundred sixty-seven of the Companies Law..

We point out that the Company is obliged to follow the procedures stipulated in the Instructions and Procedures Related to Listed Companies with Accumulated Losses amounting to %20 or More of their Share Capital, and of course, the members of the Company's Board are exposed to receiving the penalties stipulated in the Companies Law and the Capital Market Law and its implementing regulations, in the event that the Company does not comply with the statutory procedures referred to in the relevant regulations, and these penalties are mainly represented in paragraph (h) of Article (261) of the Companies Law.

8.3.9 Risks Associated with the Application of the New Companies Law and the Amended Corporate Governance Regulations

On 01/12/1443H (corresponding to 30/06/2022G), Royal Decree No. M/132 was issued to approve the Companies Law in the form attached to the Decree. The law contributed to providing an effective framework for corporate governance, characterized by justice and institutional work, that contributes to the sustainability of economic entities and meeting the needs and requirements of the entrepreneurial sector. This law repeals the Companies Law promulgated by Royal Decree No. M/3 dated 28/01/1437H (corresponding to 10/11/2015G). In accordance with the promulgation of the law, the Corporate Governance Regulations issued by the Board of the Capital Market Authority pursuant to Resolution No. 8-16-2017 dated 16/05/1438H (corresponding to 13/02/2017G) based on the Companies Law promulgated by Royal Decree No. M/2 dated 28/01/1437H (corresponding to 10/11/2017G) were amended by the CMA Board Resolution No. 8-5-2023 dated 26/06/1444H (corresponding to 18/01/2023G) based on the Companies Law promulgated by Royal Decree No. M/132 dated 01/12/1443H (corresponding to 30/06/2022G).

We note that the Company might not apply some of the provisions of the new law and the regulations as required, due to changes in some of these relevant procedures and periods, including the procedures related to the duties imposed on companies, especially Article 132 on company losses. We also refer to the potential risks that the Company may incur violations and penalties from the CMA as a result of such violations.

It should be noted that the company announced on 20/10/1444H (corresponding to 10/05/2023G) that its accumulated losses reached 57.04% of its capital as of 07/06/1444H (corresponding to 31/12/2022G) and the date of notification to the Board of Directors was dated 14/10/1444H (corresponding to 04/05/2023G), and accordingly, the Board of Directors recommended by the same announcement the initiation of the required procedures and compliance with the relevant laws and regulations with regard to companies whose losses exceeded 50% of the capital in terms of disclosure and preservation of shareholders' rights and interests. The Board of Directors of the Company did not convene the General Assembly within the period specified in Article (132) of the Companies Law, which is one hundred eighty (180) days from the date the Board became aware of such losses, in order to consider the continuation of the Company with any of the necessary measures to address or dissolve the Company. The members of the Board of Directors were penalized by the Board of the CMA on 08/10/1445H (corresponding to 17/04/2024G) as a result of not holding the Extraordinary General Assembly within a period of one hundred eighty (180) days from the date of becoming aware that the losses exceeded half of the Company's capital in order to consider the continuation of the Company - with the necessary procedures to address the losses – or to dissolve the Company.

8.3.10 Risks Associated with the Breach of the Liquidity Requirements

According to Paragraph (d) of Article Seven of the Listing Rules, if the issuer becomes aware at any time after the listing of its shares that any of the requirements under Paragraph (b) of the same Article are not met, it must immediately notify the Saudi Exchange and take the necessary corrective actions to ensure compliance with the relevant requirements, within the timeframe specified by the Saudi Exchange and in coordination with the Capital Market Authority. The issuer must also continuously update the Saudi Exchange on any developments regarding the corrective actions. Sub-paragraph (2) of Paragraph (b) of Article Seven of the Listing Rules notes that the public ownership of the class of shares subject to the listing must not be less than 30% at the time of listing. Accordingly, the Company is required to maintain a minimum public ownership of 30% of its total shares.

Given that the Company's Extraordinary General Assembly for the Transaction is expected to vote on three resolutions concerning the Transaction, it is prudent to note that there are several possible outcomes from that assembly. Approval of some resolutions and rejection of others may result in the Company violating the liquidity requirements. The following table outlines the potential scenarios of the Company's Extraordinary General Assembly for the Transaction resolutions related to the Transaction, the impact of each hypothesis on the public ownership percentage, and the extent to which the Company complies with the liquidity requirements stipulated in the Listing Rules.

Table 8.4: The possibilities of voting at the Company's Extraordinary General Assembly for the Transaction and the impact of each on the Company's public ownership and its statutory status.

#	Possible Voting	Public Ownership	Regulatory Status
1	Approval of all Transaction Resolutions (conversion of Shareholder's Loan, Acquisition debt, and Assignment debt)	30.1%	Compliant with liquidity requirements
2	Rejection of all Debt Conversion Elements	30.0%	Compliant with liquidity requirements
3	Approval of the conversion of the Shareholders Loan and Assignment debt; and the rejection of Acquisition debt	30.5%	Compliant with liquidity requirements
4	Approval of the Assignment debt conversion; and the rejection of converting the Shareholders Loan and the Acquisition debt	33.4%	Compliant with liquidity requirements
5	Approval of the conversions of the Shareholder Loan and the Acquisition debt; and the rejection of converting the Assignment debt	22.6%	Non-compliant with liquidity requirements
6	Approval of the conversion of the Acquisition and Assignment debt; and the rejection of converting the Shareholders Loan	26.8%	Non-compliant with liquidity requirements
7	Approval of the conversion of the Shareholder Loan; and the rejection of converting the Acquisition and Assignment debts	27.2%	Non-compliant with liquidity requirements
8	Approval of converting the Acquisition debt; and the rejection of converting the Shareholder Loan and Assignment debts	24.2%	Non-compliant with liquidity requirements

It is evident from the table above that certain voting outcomes in the Company's Extraordinary General Assembly for the Transaction may result in the public ownership percentage falling below the regulatory minimum threshold of 30%. This would constitute a clear violation of the liquidity requirements stipulated in the Listing Rules. In the event of such violation, the Company would be subject to immediate regulatory accountability and would be required to notify the Saudi Exchange promptly and take corrective actions within a specified timeframe in coordination with the Capital Market Authority. This could negatively impact the Company's regulatory standing, weaken its financial position, and expose it to further scrutiny or restrictions in its market activities.

8.3.11 Risks Associated with Related Party Transactions

As stated in several parts of the Circular, the Debt Conversion Transaction includes transactions with related parties where a number of members of the Board of Directors have indirect interest in the Transaction as they hold different capacities in Al-Dabbagh Group, one of the Creditors of the Company in relation the Transaction, and it should be noted that the Loan Agreements in total of eighty-one million two hundred twenty-five thousand ninety-seven (81,225,097) SAR represent transactions with related parties under the Rules on the Offer of Securities and Continuing Obligations where a number of members of the Board of Directors have indirect interest in the Loan Agreements as they hold different capacities in Al-Dabbagh Group (for more information on Shareholders' Loan Agreements, please see paragraph (9.9) ("*Details of Related Parties with a Direct or Indirect Interest in the Transaction*") of Section 9 ("*Conversion of the Debt into Shares Through Capital Increase*") of this Circular) (it is worth noting that the board resolution No. 83-2023 dated 01/15/1445H (corresponding to 02/08/2023G) did not show the abstention of then conflicted Chairman from deliberating and voting as a related party to the Transaction), and the Company did not announce these transactions to the public on relevant dates in accordance with the provisions stipulated in the Rules on the Offer of Securities and Continuing Obligations, and although the loans are free of any interest to Al-Dabbagh Group, it should be noted that these loans may be considered as dealings that have created indirect interest for the members of the Board related to Al-Dabbagh Group, moreover, the Loan Agreements have not been ratified by the General Assembly. Therefore, it should be noted that the shareholders related to the shareholders' loan, namely (1) Al-Dabbagh Group, (2) Commercial Marketing Services and Agencies Co. Ltd., and (3) Commercial Development Group, will abstain from voting on the resolution related to the approval of the shareholders' loan as well as the decision to approve the debt conversion of the agreement at the Extraordinary General Assembly meeting of the Company for the Transaction. (for more information on Shareholders' Loan Agreements, please see paragraph (11.4.3) ("*Shareholder Loan Agreements*") of Section 11 ("*Legal Information*") of this Circular).

The following table shows all transactions with related parties as recorded according to the last interim financial statements on 31 March 2025:

Table 8.5: Transactions with related parties as recorded according to the last interim financial statements on 31 March 2025.

For the three-month period on 31 March 2025	For the three-month period ending March 2024	For the financial year ended 31 December 2024	Consolidated P&L Statement	
2025 March 31	2024 March 31	2024	Nature of transactions	Name of the related party
Saudi Riyal (in thousands)	Saudi Riyal (in thousands)	Saudi Riyal (in thousands)		
(unreviewed)	(unreviewed)	(Reviewed)		
-	2,500	-	Amounts paid by the group	
-	-	6	Expenses paid on behalf of a shareholder	Al-Dabbagh Group Holding Company Ltd
-	-	7	Expenses paid on behalf of the Group	
-	-	140	Expenses paid by the group	
-	408.705	-	Revenues from construction and general works contracts	Modern Building Leaders Co. Ltd.*
-	11,861	-	Expenses paid by the associate subsidiary on behalf of the Group	
-	140	-	Expenses paid on behalf of the Board of Directors	Other Related Entities
-	92	-	Expenses paid by the associate subsidiary on behalf of the Group	
-	15	-	Expenses paid by an associate on behalf of the Group	
-	3,848	-	Revenues from construction and general works contracts	

For the financial year ended 31 December 2024	For the three-month period on 31 March 2025	Amounts due from related parties included in the amounts paid in advance and other accounts receivable	
2024	2025 March 31	Nature of transactions	Name of the related party
Saudi Riyal (in thousands)	Saudi Riyal (in thousands)		
(Reviewed)	(unreviewed)		
1900	1900	The amount due from related parties included in the amounts paid in advance and other accounts receivable	Al-Dabbagh Group Holding Company Ltd
81,225	81,225	Amount due to a shareholder	
12,175		Amount due to a related party included in the commercial accounts payable	

* It should be noted that MSB (one of the Acquisition Creditors and Selling Partners of First Fix) owns and controls the entire capital of Modern Building Leaders Company. Upon completion of the Transaction, the Company will disclose its dealings as well as First Fix's dealings with Modern Building Leaders Company if the nature of the transaction requires disclosure under the provisions of Article (65) of the Rules on the Offer of Securities and Continuing Obligations.

Any stakeholder has the right to petition before the competent judicial authority for the annulment of the contract containing an undisclosed interest of a member of the Board, or to oblige the member to pay any profit or benefit achieved for him from this contract. In the event that the General Assembly refuses to grant the license under Article (27) of the Companies Law and Article (65) of the Implementing Regulations of the Companies Law for Listed Joint Stock Companies, the member of the Board of Directors shall submit his resignation within a period determined by the General Assembly, otherwise his membership in the Board shall be considered expired, unless he decides to withdraw from the contract, dealing or competing business, or to reconcile his situation in accordance with the Companies Law and its Implementing Regulations before the expiry of the period specified by the General Assembly

8.3.12 Risks Associated with Litigation and Disputes

In the exercise of its business, the Company may be exposed to lawsuits or complaints by its customers, suppliers, or other related parties, as well as by regulatory and supervisory authorities. The Company may also be exposed to judicial claims by government authorities and entities in the context of the new controls. Of course, the Company cannot guarantee that such claims or disputes will not occur, nor can it predict the outcomes or costs thereof, especially the damages and penalties that may be adjudged against the Company. The Company does not guarantee that such claims or disputes will not have a material impact on its business, financial position, and results of operations. Thus, any negative consequences of such cases may adversely impact the Company.

8.3.13 Risks Associated with Taxes and Zakat

The Company obtained its zakat assessments until 2010 from the Zakat, Tax, and Customs Authority ("ZATCA"). In addition, the Company's zakat returns until 2022 have been submitted. It is worth noting that during 2020G, ZATCA issued an assessment of 67.1 million Saudi Riyals for the Company and its subsidiaries for the years from 2014G to 2017G, and the Company submitted an objection to this assessment. In 2022G, ZATCA issued a revised assessment of 39.2 million Saudi Riyals for the same period, and the Company submitted an objection to this assessment to the General Secretariat of Tax Committees. The case is still under consideration. Moreover, in 2021G, ZATCA issued an assessment of 11.6 million Saudi Riyals for the Company and its subsidiaries for 2019G and 2020G, and the Company's management submitted an objection to this assessment. In 2022G, ZATCA issued an amended assessment of 8 million Saudi Riyals for the same two years, and the Company submitted an objection to this assessment to the General Secretariat of Tax Committees as well. The case is still under consideration. ZATCA has not yet issued zakat assessments for the Company and its subsidiaries for the years from 2011G to 2013G and for the years 2018G, 2021G, and 2022G. It should be noted that it is likely that tax or zakat obligations on the Company and/or its shareholders will arise due to the Transaction, the disposal of shareholders' stakes in the Company, or for any other reason, bearing in mind any tax or zakat exclusions or exemptions (including the obligation to disclose the Transaction to the relevant tax and zakat authorities within the Kingdom or abroad, or to pay any tax or zakat obligations that may arise due to the Transaction). Nonetheless, the issuance of the New Shares is not expected to result in revenue fees or the like in the Kingdom (fees collected by the relevant government entities in some countries against the issuance of new shares).

9. Conversion of the Debt into Shares Through Capital Increase

9.1 Transaction Overview

The proposed Debt Conversion Transaction consists in the Company's conversion of some of its obligations to its Creditors into shares in the Company in accordance with the terms and conditions of the relevant agreements, as set out below. The Company will carry out the Transaction in accordance with the provisions of Article 126 of the Companies Law and Article 74 of the Rules on the Offer of Securities and Continuing Obligations. This Section explains the essential details of the Transaction, including the total debt to be converted, the related parties, the expected impact of the Transaction, etc.

9.1.1 Debt Resulting from the Acquisition of First Fix

The Company signed a binding Acquisition Agreement with the Selling Partners in First Fix on 20/11/1444H (corresponding to 09/06/2023G), under which it was agreed that the Company would acquire fifty-one percent (51%) of First Fix's capital in exchange for consideration of five hundred forty-four million, one hundred seventy thousand Saudi Riyals (SAR 544,170,000). The parties agreed to take the necessary actions to carry out the Acquisition in accordance with the provisions of the relevant regulations. The parties agreed that the consideration for the transaction would be divided into two payments, with the first being a cash payment of two hundred fifty million Riyals (SAR 250,000,000) that the Company financed by means of the loan provided by Al Rajhi Bank in the amount of three hundred thirty million Saudi Riyals (SAR 330,000,000). The Company liquidated sufficient funds to execute the first payment, while keeping the rest of the unused balance with the Bank. The financing agreement included several restrictions and guarantees in favor of Al Rajhi Bank. The Company had the option to settle the Total Subsequent Consideration through a cash or in-kind payment. The parties have agreed that the Total Subsequent Consideration will be settled in kind, by increasing the Company's capital through debt conversion in accordance with the provisions of Article 126 of the Companies Law. Therefore, the Company will issue new shares in the Company to the Selling Partners, with a value equivalent to two hundred ninety-four million, one hundred seventy thousand Saudi Riyals (SAR 294,170,000), (subject to certain swap transactions, including any corrections as a result of the closing accounts). Where the parties of the Acquisition Agreement agreed on reviewing the balance sheet of First Fix, especially in relation to the actual cash flow, actual debt, and working capital as of the date of effectiveness of the Acquisition Agreement and to modify the agreed purchase price upon based on the findings of such closing account review process. On 22/09/1445H (corresponding to 01/04/2024G), the Company announced on the Saudi Exchange website a 27% increase in the total debt to be converted, after the Company reviewed the draft closing statement. The parties agreed (according to the modifications listed above) to revise First Fix's total valuation to be one billion two hundred and sixty-four million three hundred and eleven thousand two hundred and twenty-four (1,264,311,224) Saudi riyals, which led to increase the second payment by one hundred million, six hundred twenty-eight thousand, seven hundred twenty-four Saudi Riyals (SAR 100,628,724), so that the total amount of the subsequent consideration is three hundred ninety-four million, seven hundred ninety-eight thousand, seven hundred twenty-four Saudi Riyals (SAR 394,798,724) ("**Total Subsequent Consideration**") (The final amount due to the Selling Partners on 08/08/1445H (corresponding to 02/18/2024G) has been amended by deducting the amount of (41,314,438) Saudi Riyals, representing the total amounts transfer by some Selling Partners to the Assignees) for the final amount due to the Selling Partners becomes (353,484,285) Saudi Riyals ("**Net Subsequent Consideration**"). Therefore, the total value of the Acquisition is six hundred forty-four million, seven hundred ninety-eight thousand, seven hundred twenty-four Saudi Riyals (SAR 644,798,724). Whereas the Acquisition Transaction resulted in a change in First Fix's control, the Company obtained the no objection from the General Authority for Competition on the Acquisition Transaction on 26/01/1445H (corresponding to 13/08/2023G). With reference to the resolution of the Company's Ordinary General Assembly meeting dated 08/03/1447H corresponding 31/08/2025G approving the the substantial deal of listing the shares of First Fix through an initial public offering on Tadawul, the Company confirms that it will not sell any of the shares owned by it in First Fix in such Listing. The Company shall disclose and announce any changes or developments that might occur in this regard. For more information on the Acquisition Agreement, and other agreements related to the Acquisition, please see Paragraph 11.4.1 (*Agreements Related to the Debt Arising from the Acquisition*) of Section 11 (*Legal Information*) of this Circular.

9.1.2 The Debt Arising from the Assignment Agreements

On 08/08/1445 AH (corresponding to 02/18/2024 AD), the Company ratified two Assignment Agreements concluded by some Selling Partners with Assignees, according to which two of the Selling Partners transferred part of the consideration due to them to the Assignees in an amount equal to forty-one million, three hundred and fourteen thousand, four hundred and thirty-eight (41,314,438) Saudi riyals This was done by Fares Ismat Al-Saadi transferring an amount equivalent to (15,811,699.43) Saudi riyals to Ghaleb bin Khalid Al-Sharif, as well as MSB Holding Company transferring an amount equivalent to (25,502,739.32) Saudi riyals to Mohammed Haider bin Laden, and thus both Ghaleb bin Khalid Al-Sharif and Mohammed Haider bin Laden became direct creditors of the Company. For more information about the two Assignment Agreements, please see paragraph 11.4.1 (*Agreements Related to the Debt Arising from the Acquisition*) of Section (11) (*Legal Information*) of this Circular.

9.1.3 Debt Resulting from Shareholder Loan Agreements

The other debt to be converted is the loan provided by Al-Dabbagh Group in its capacity as a shareholder in the Company, with a total of eighty-one million, two hundred twenty-five thousand, ninety-seven Saudi Riyals (SAR 81,225,097). The debt to be converted consists of several supporting agreements as follows:

Table 9.1: Details of the Shareholder Loan Agreements

No.	Amount (SAR)	Date	Summary of the Agreement
1	45,225,097.35	18/05/1444H (corresponding to 12/12/2022G)	The Main Loan Agreement was signed on 18/05/1444H (corresponding to 12/12/2022G) by and between the Company and Al-Dabbagh Group in its capacity as a major shareholder in the Company, with a value of forty-two million, twenty-five thousand, ninety-seven Saudi Riyals and thirty-five halalas (SAR 42,025,097.35), providing that the amount would be payable on 03/10/1445H (corresponding to 12/04/2024G). The Company later reviewed the existing accounts between it and Al-Dabbagh Group and categorized such account into (current account - debtor account), and through this process, it became clear to the Company that there were differences amounting to a total of three million two hundred thousand (3,200,000) Saudi Riyals. Accordingly, the parties agreed to review the initial amount and adjusted it to match what is stated in the parties' accounting records, as shown in the first column of this table. It should be noted that the loan is free of any interest or financing cost, and the agreement expressly states that this loan is subordinate to any other obligations incurred by the Company. Under the agreement, Al-Dabbagh Group has waived any right or claim it has under this agreement.
2	SAR 13,200,000	24/07/1444H (corresponding to 15/02/2023G)	The main Loan Agreement was signed on 24/07/1444H (corresponding to 15/02/2023G) by and between the Company and Al-Dabbagh Group in its capacity as a major shareholder in the Company, with a value of thirteen million, two hundred thirty thousand Saudi Riyals (SAR 13,230,000), providing that the amount would be payable on 07/11/1445H (corresponding to 15/05/2024G). The Company later reviewed the accounts between it and Al-Dabbagh Group and categorized such account into (current account - debtor account). Through this process, it became clear to the Company that there was an error in the report resulting in an increase of thirty thousand (30,000) Saudi Riyals. Accordingly, the parties agreed to review the initial amount and adjusted it to match what is stated in the parties' accounting records, as shown in the first column of this table. It should be noted that the loan is free of any interest or financing cost, and the agreement expressly states that this loan is subordinate to any other obligations incurred by the Company. Under the agreement, Al-Dabbagh Group has waived any right or claim it has under this agreement.
3	SAR 22,800,000	04/02/1445H (corresponding to 30/08/2023G)	The main Loan Agreement was signed on 04/02/1445H (corresponding to 30/08/2023G) by and between the Company and Al-Dabbagh Group in its capacity as a major shareholder in the Company, with a value of twenty-two million, eight hundred thousand (22,800,000) Saudi Riyals, providing that the amount would be payable on 26/01/1446H (corresponding to 01/08/2024G). It should be noted that the loan is free of any interest or financing cost, and the agreement expressly states that this loan is subordinate to any other obligations incurred by the Company. Under the agreement, Al-Dabbagh Group has waived any right or claim it has under this agreement.

Further to these agreements, the Company entered into a Debt Conversion Agreement with Al-Dabbagh Group, whereby the parties have amended all the aforementioned Loan Agreements by agreeing that the Company's obligations to Al-Dabbagh Group as a result of the Loan Agreements can be settled through the issuance of additional shares in the Company to Al-Dabbagh Group. In order to assign a value to the debt and calculate the number of shares to which Al-Dabbagh Group is entitled, the parties have adopted the Conversion Factor used in the context of the Acquisition Agreement. For further information on the Transaction Conversion Factor, please see Paragraph 9.7 (*Valuation of the Debt and the New Shares*) of Section 9 (*Conversion of the Debt into Shares Through Capital Increase*) of this Circular. The parties also agreed to amend the maturity date in respect of all the Loan Agreements to be 19/07/1445H (corresponding to 31/01/2024G). The Company has obtained these loans for the purpose of improving and supporting its solvency and enhancing the overall financial position of the Company. For further information on the Shareholder Loan Agreements, please see paragraph 11.4.3 (*Shareholder Loan Agreements*) of Section 11 (*Legal Information*) of this Circular.

9.1.4 Total Debt to be Converted

The debt to be converted is the total of the debts due pursuant to agreements with the Creditors (“**Transaction Agreements**”). The total amount of debt to be converted is four hundred seventy-six million, twenty-three thousand, eight hundred twenty-one Saudi Riyals (SAR 476,023,821). The Company will issue a total of eighteen million, thirty-two thousand, nine hundred eighty-three (18,032,983) shares with a nominal value of (10) Saudi Riyals per share, so that the total nominal value of the New Shares is an amount of one hundred eighty million, three hundred twenty-nine thousand, eight hundred thirty (180,329,830) Saudi Riyals for the benefit of the Creditors, provided that they are divided among the Creditors in proportion to the obligations due to each of them, as follows:

Table 9.2: Explanation of the Amount of Debt due to each Creditor, its Source, its Maturity Date, and the Number of Shares to be Issued as per the Agreed Conversion Factor

Creditor	Source of Debt	Amount Due (SAR)	Maturity Date	Number of Shares to be Issued
MSB Company	Acquisition Agreement	250,856,367.65	17/04/1445H (corresponding to 01/11/2023G)	9,503,072
Fares Ismat Al-Saadi		63,148,045.42	17/04/1445H (corresponding to 01/11/2023G)	2,392,207
Ziad Jan Al-Sayegh		39,479,872.42	17/04/1445H (corresponding to 01/11/2023G)	1,495,597
Mohammed Haider bin Laden	Assignment Agreement	25,502,739.32	08/08/1445H (corresponding to 18/02/2023G)	966,108
Ghaleb bin Khalid Al-Sharif		15,811,699.43	08/08/1445H (corresponding to 18/02/2024G)	598,987
Al-Dabbagh Group	Debt Conversion Agreement	81,225,097	19/07/1445H (corresponding to 31/01/2024G)	3,077,012
Total	N/A	476,023,821	N/A	18,032,983

Upon completion of the Transaction, the Creditors will directly own 37.36% of the Company's capital (excluding Al-Dabbagh Group's current direct and indirect holdings the Company's capital, which total 70% of the Company's capital before the Capital Increase and will be reduced to total holdings of 50.22% of the company's capital when the Capital Increase resolution becomes effective). The percentage owned by all the Current Shareholders will decrease from 100% to 62.64% of the Company's capital when the Capital Increase resolution becomes effective (excluding the new shares that will be issued to Al-Dabbagh Group, amounting to 6.37% of the Company's capital, when the Capital Increase resolution becomes effective).

We also note that the agenda of the General Assembly of the Transaction will contain three separate items in relation to the Transaction, first of which relates to the approval of the Debt Conversion due as a result of the Shareholders' Loan by (1) the issuance of three million seventy-seven thousand twelve (3,077,012) ordinary shares in favor of Al-Dabbagh Group, and the other (2) the issuance of Thirteen million three hundred and ninety thousand eight hundred and seventy six (13,390,876) ordinary shares for the benefit of the Selling Partners, and finally (3) The issuance of one million five hundred and sixty-five thousand ninety-five (1,565,095) ordinary shares in favor of the Assignees. In the event of the approval of all the resolutions, the Company will issue eighteen million thirty-two thousand nine hundred eighty-three (18,032,983) ordinary shares in favor of the Creditors. It should be noted that Al-Dabbagh Group, Commercial Marketing Services & Agencies Co. Ltd., and Trading Development Group Company will abstain from voting on the section related to the approval of the resolution on the ratification of the Shareholders' Loan and the resolution to conversion of the Shareholders' Loan at the Company's at the Company's Extraordinary General Assembly for the Transaction.

9.2 Reasons for the Debt Conversion and its effects on the Company

Due to the limited cash flow in the Company at the payment date of the debts subject of the Transaction, especially the debt resulting from the Acquisition, which became payable in the last quarter of 2023G, the Company agreed with the Creditors to convert their debts, amounting to a total of four hundred seventy-six million, twenty-three thousand, eight hundred twenty-one Saudi Riyals (SAR 476,023,821), into new shares numbering eighteen million, thirty-two thousand, nine hundred eighty-three (18,032,983) ordinary shares in lieu of cash settlements. This conversion is expected to benefit the Company as follows:

- Reducing the percentage of cumulative loss percentage and meeting the requirements of the Companies Law with respect to cumulative losses According to the latest initial financial statements dated 30/06/2025, the accumulated losses amounted to two hundred and ninety-five million four hundred and eighty thousand (295,480,000) Saudi Riyals, which constitutes 97.73% of the Company's capital
- Supporting the Company's solvency and enhancing its ability to obtain new debt financing (loans, sukuk, etc. ...) for future growth opportunities.
- Strengthening the general financial position of the Company.

This proposed Capital Increase will mitigate the Company's risk due to the above factors, which is expected to have a positive impact on the Company's shareholders, including minority public shareholders. The Debt subject to the transaction includes a Debt owed to a major shareholder, Al-Dabbagh Group Holding Company Limited, in the amount of SAR 81,225,097 in addition to the Net Subsequent Consideration for the acquisition of approximately SAR 353,484,285. The debt arising out of the two Assignment Agreements amounting to SAR 41,314,439 is due directly in favor of the Assignees. Thus, the total Debt subject to conversion is SAR 476,023,821. According to the latest initial financial statements dated 30/06/2025, the accumulated losses amounted to two hundred and ninety-five million four hundred and eighty thousand (295,480,000) Saudi Riyals, which constitutes 97.73% of the Company's capital.

We note that if the Company's Extraordinary General Assembly for the Transaction does not approve the conversion of the debt resulting from the Acquisition, the Company will then have the option of either paying the Net Subsequent Consideration to the Selling Partners in cash, or granting the Selling Partners (according to their ownership shares) the Clawback Shares, which will result in the Company's ownership in First Fix declining to 27.3% instead of 51%, as recorded in the Company's books as of the date of this circular. Furthermore, we would like to point out that if the Extraordinary General Assembly of the Company does not approve the Transaction related to converting the debt resulting from the Shareholders' Loan, the Company will retain the debt amount in its books and intends to enter into a new agreement to repay and reschedule these debts based on the availability of liquidity.

It is worth noting that following the Completion of the Debt Conversion transaction and the proposed Capital Increase which is expected to be completed within the fourth quarter of the year 2025, the accumulated losses ratio is expected to decrease from 97.73% to 61.2% of the Company's capital, considering that the Company's capital will increase from SAR 302,344,000 million to SAR 482,673,830.

9.3 Motives for the Acquisition and Implications for the Company

The Red Sea Company's core business focused on providing residential units in remote locations to customers, which included design, construction, and maintenance of these units. In recent decades, The Red Sea Company has implemented a number of projects in the Kingdom and in more than 60 countries for clients in the oil and gas, mining, defense and disaster relief sectors. These sectors had one thing in common: the need for quality products and services of international standards, delivered on time and within budget in remote areas.

Over the past few years, investments in TRC's traditional core sectors have seen a decline in demand (the Company's core business), which in turn has led to a decline in demand for TRSC's products and/or services, contributing to cumulative losses on the Company. Accordingly, the Company's Board of Directors looked for opportunities to expand the scope of the Red Sea Company's business. Discussions between TRSC's executive management and the Board of Directors identified a market adjacent to TRC's business, namely the reliance on MEP subcontractors to deliver turnkey projects. The Board of Directors decided to explore Acquisition opportunities rather than develop its internal capabilities. Accordingly, First Fix has been identified as a potential target for the Acquisition, and this Acquisition has contributed to improving the Company's financial performance, as the consolidated financial statements of the Company as of December 31, 2023 show that First Fix achieved a profit of SAR 81.8 million, with SAR 39.4 million of which is due to non-controlling shareholders, and these profits were recorded in the fourth quarter of the fiscal year 2023.

9.4 Projected Change in the Board of Directors

Red Sea Company is currently managed by a Board of Directors consisting of 8 members, as follows:

Table 9.3: Formation of the Company's Board of Directors and the Shares Owned by Each Member Before and After the Capital Increase

Name	Position	Status	Nationality	Shares owned before the Transaction				Shares owned after the Transaction				Membership Date				
				Directly		Indirect Interest		Directly		Indirect Interest						
				Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage					
Amr Abdullah Al-Dabbagh	Chairman	Non-executive / Non-independent	Saudi	None		4,232,814		14%		None		4,848,216		10.045%		01/11/1445H (corresponding to 09/05/2024G)
Sami Ahmed Salem bin Mahfouz	Vice Chairman	Non-executive / Non-independent	Saudi													01/11/1445H (corresponding to 09/05/2024G)
Lama Abdulaziz Abdullah Al Sulaiman	Board of Directors member	Non-executive / Independent	Saudi													01/11/1445H (corresponding to 09/05/2024G)
Hans-Martin Stockmeier	Board of Directors member	Non-executive / Independent	German													01/11/1445H (corresponding to 09/05/2024G)
Mohamed Hosni Jazeel	Board of Directors member	Non-executive / Non-independent	Sri Lankan													01/11/1445H (corresponding to 09/05/2024G)
Mohamed Zaher Salah Al-Din Al-Munajjed	Board of Directors member	Non-executive / Independent	Saudi													01/11/1445H (corresponding to 09/05/2024G)
Shahad Khaled Salem Nejaim	Board of Directors member	Non-executive / Non-independent	Saudi													01/11/1445H (corresponding to 09/05/2024G)
Vacant*																

*It should be noted that the position of one of the members of the Board of Directors became vacant due to the resignation of the member of the Board of Directors, Mrs. Lina bint Abdulaziz Al Al-Sheikh, for private reasons on 12/09/1446H (corresponding to 12/03/2025G).

Below is a brief summary of the Company's current senior executives

1. Ghassan Ashkar, Chief Financial Officer and acting CEO
2. Abdulaziz Al Batel, the Chief Executive Officer for Legal Affairs, Governance, and Compliance.
3. Omar Abu Anza, Head of Treasury.
4. Najlaa Al Saif, Transformation Consultant.
5. Sharifa Al Mudlij, Head of Human Capital.
6. Ghazil Al Otaibi, Head of Strategic Management.

It is worth mentioning that the Transaction Agreements did not address any amendment to the current Board of Directors or the current Executive Management of the Company as a result of the Transaction, so the Company's current Board and Executive Management will continue as they are before and after the Transaction is completed. It should also be noted that under the Companies Law, each shareholder in the Company has the right to nominate himself or other persons for membership on the Company's Board of Directors based on the conditions approved by the Company, and appointment decisions are ratified at the General Assembly of the Company.

9.5 Company Ownership Structure Before and After the Capital Increase

The following table details the holdings of major shareholders and the public in Red Sea Company before and after the Capital Increase:

Table 9.4: Table 9.4: Ownership Structure of the Company Before and After the Capital Increase

Shareholder	Before the Capital Increase						After the Capital Increase					
	Directly		Indirect Interest		Total		Directly		Indirect Interest		Total	
	Number of shares	Per-centage	Number of shares	Percent-age	Number of shares	Percent-age	Number of shares	Percent-age	Number of shares	Percent-age	Number of shares	Percentage
Al-Dabbagh Group Company	15,419,539	51%	5,744,529	19%	21,164,068	70%	18,496,551	38.32%	5,744,529	11.9%	24,241,080	50.22%
Trading Co. for Marketing Services & Agencies ⁽²⁾	3,023,436	10%	None		3,023,436	10%	3,023,436	6.26%	None		3,023,436	6.26%
Tanmiah Commercial Group Company ⁽²⁾	2,721,093	9%	None		2,721,093	9%	2,721,093	5.64%			2,721,093	5.64%
MSB Holding Company			N/A				9,503,072	19.69%			9,503,072	19.69%
Fares Ismat Al-Saadi ⁽¹⁾			N/A				2,392,207	4.96%			2,392,207	4.96%
Ziad Jan Al-Sayegh ⁽¹⁾			N/A				1,495,597	3.10%			1,495,597	3.10%
Mohammed Haider bin Laden ⁽¹⁾			N/A				966,108	2.00%			966,108	2.00%
Ghaleb bin Khalid Al-Sharif ⁽¹⁾			N/A				598,987	1.24%			598,987	1.24%
The public ⁽³⁾			N/A		9,070,332	30%			N/A		14,523,231	30.09%
Total					30,234,400	100%					48,267,383	100%

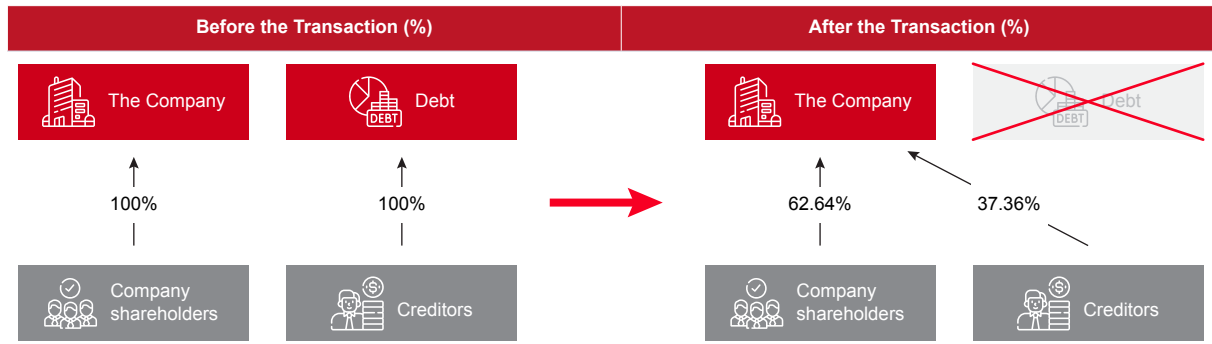
(1) It should be noted that the stakes of Fares Ismat Al-Saadi, Ziad Jan Al-Sayegh, Mohammed Haider bin Laden, and Ghaleb bin Khalid Al-Sharif will be calculated as part of public ownership after the completion of the Transaction, as each one's stake will be less than 5% of the total capital of the Company. Thus, the public's holdings after the Capital Increase will be 30.09% of the Company's total capital.

(2) It should be noted that Al-Dabbagh Group owns the entire capital in both (1) Trading Co. for Marketing Services & Agencies and (2) Tanmiah Commercial Group Company.

(3) For the purpose of determining the number and percentage of shares owned by the public, the stakes of Fares Ismat Al-Saadi, Ziad Jan Al-Sayegh, Mohammed Haider bin Laden, and Ghaleb bin Khalid Al-Sharif have been calculated as part of public ownership in the above table.

The following is a simplified model of the structure of the Debt Conversion Transaction:

Figure (9.1): Comparison of the Company Ownership Structure Before and After the Capital Increase



(1) It should be noted that Al-Dabbagh Group's current stake in the Company's capital is not factored into the above figure.

9.6 Summary of First Fix Operations

9.6.1 Incorporation and Ownership Structure

Primary Installations Company, a Saudi closed joint stock company registered under commercial registration No. (4030279152) dated 11/02/1436H (corresponding to 03/12/2014G), and its headquarters located in Jeddah, Kingdom of Saudi Arabia, and the capital of First Fix is four hundred million (400,000,000) Saudi Riyals divided into forty million ordinary shares with a nominal value of ten (10) Riyals per share. First Fix has obtained a service investment license from the Ministry of Investment No. (112064308137897) dated 18/08/1443H (corresponding to 22/03/2022G), for the entry of a foreign partner in its ownership, and the following table shows the ownership structure of First Fix Company before and after the Acquisition Transaction:

Table 9.5: First Fix's ownership structure before and after the Acquisition.

Before Acquisition					After Acquisition				
Shareholder	Number of Shares	Nominal Value of Shares	Total Nominal Value	Percentage of Ownership	Shareholder	Number of Shares	Nominal Value of Shares	Total Nominal Value	Percentage of Ownership
MSB Company	70	1,000	70,000	70%	MSB Company	343	100	34,300	34.3%
Ziad Jan Al-Sayegh	10	1,000	10,000	10%	Ziad Jan Al-Sayegh	49	100	4,900	4.9%
Fares Ismat Al-Saadi	20	1,000	20,000	20%	Fares Ismat Al-Saadi	98	100	9,800	9.8%
					Red Sea Company	510	100	51,000	51%
Total	100	1,000	100,000	100%	Total	1,000	100	100,000	100%

9.6.2 The History of First Fix and the Development of its ownership Structure and Capital

Primary Installations Company, a Saudi limited liability company registered under commercial registration No. (4030279152) dated 11/02/1436H (corresponding to 03/12/2014G), and its headquarters is located in Jeddah, Kingdom of Saudi Arabia, and the capital of First Fix is one hundred thousand (100,000) Saudi Riyals divided into one thousand (1,000) ordinary shares with a nominal value of one hundred (100) Riyals per share. First Fix has obtained a service investment license from the Ministry of Investment No. (112064308137897) dated 18/08/1443H (corresponding to 22/03/2022G), for the entry of a foreign shareholder in its ownership, and the following table shows the ownership structure of First Fix Company before the Acquisition Transaction and as at the date of this Circular:

Table 9.6: Ownership Structure of First Fix at Incorporation.

Shareholder	Number of Shares	Nominal value of the share (SAR)	Total Nominal Value (SAR)	Percentage of ownership
Mohammed Saleh Bin Laden	80	1,000	80,000	80%
Fares Ismat Al-Saadi	20	1,000	20,000	20%
Total	100	1,000	100,000	100%

Pursuant to the Articles of Association dated 02/09/1443H (corresponding to 03/04/2022G), Mr. Mohammed Saleh Bin Laden sold ten (10) shares of his total shares in the capital of First Fix to Mr. Ziad Jan Al-Sayegh, as a result of which the Company obtained an investment license as described in the above paragraph. The following table shows the ownership structure of Fix after the sale of shares to Mr. Ziad Jan Al-Sayegh.

Table 9.7: Ownership Structure of First Fix Company as of 02/09/1443H (corresponding to 03/04/2022G).

Shareholder	Number of Shares	Nominal value of the share (SAR)	Total Nominal Value (SAR)	Percentage of ownership
Mohammed Saleh Bin Laden	70	1,000	70,000	70%
Fares Ismat Al-Saadi	20	1,000	20,000	20%
Ziad Jan Al-Sayegh	10	1,000	10,000	10%
Total	100	1,000	100,000	100%

Mr. Mohammed Saleh bin Laden also assigned his entire shares in Fix to MSB Company under the Articles of Association registered with the Ministry of Commerce No. (100041213) dated 14/09/1444H. The following table shows the ownership structure of Fix following the transfer of Mr. Mohammed Saleh bin Laden's shares to MSB.

Table 9.8: Ownership structure of First Fix Company as of 14/09/1444H (corresponding to 05/04/2023G).

Shareholder	Number of Shares	Nominal value of the share (SAR)	Total Nominal Value (SAR)	Percentage of ownership
Mohammed Saleh Bin Laden	70	1,000	70,000	70%
Fares Ismat Al-Saadi	20	1,000	20,000	20%
Ziad Jan Al-Sayegh	10	1,000	10,000	10%
Total	100	1,000	100,000	100%

According to the Articles of Associations published on 16/03/1445H (corresponding to 01/10/2023G), the Acquisition Transaction was documented by recording the Selling Partners' transfer of their sold shares in First Fix to Red Sea Company, which was registered as a partner in First Fix in the same version of the Articles of Associations. Additionally, the partners amended the capital clause by decreasing the nominal value of the shares to be (100) riyals per share instead of (1,000) riyals per share. The following table illustrates the ownership structure of First Fix Company after the transfer of the Selling Partners' shares to the Red Sea Company and the increase in the nominal value of the shares.

Table 9.9: Ownership structure of First Fix Company as of 16/03/1445H (corresponding to 01/10/2023G)

Shareholder	Number of Shares	Nominal value of the share (SAR)	Total Nominal Value (SAR)	Percentage of ownership
Red Sea International	510	100	51,000	51%
Mohammed Saleh Bin Laden	343	100	34,300	34.3%
Fares Ismat Al-Saadi	98	100	9,800	9.8%
Ziad Jan Al-Sayegh	49	100	4,900	4.9%
Total	1,000	100	100,000	100%

On 20/09/1446H (corresponding to 20/03/2025G), the Partners' issued a resolution to convert First Fix Company into a closed joint stock company, and increase its capital from one hundred thousand (100,000) Saudi Riyals to be four hundred million (400,000,000) Saudi Riyals, divided among the shareholders as follows:

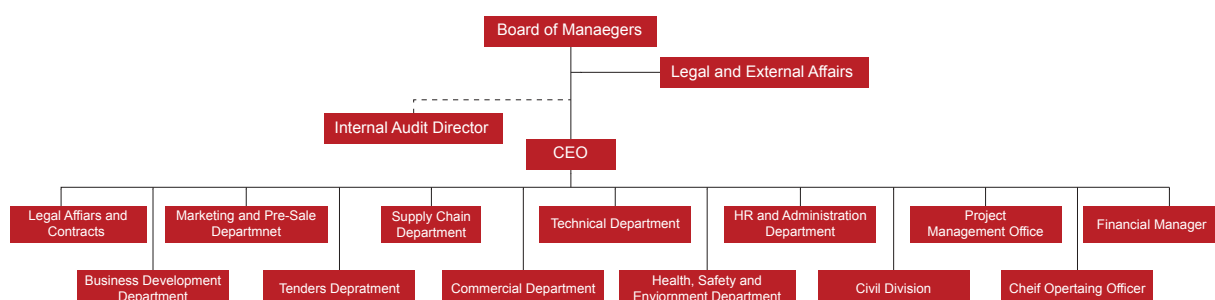
Table 9.10: Ownership structure of First Fix Company as of 20/09/1446H (corresponding to 20/03/2025G).

Shareholder	Number of Shares	Nominal value of the share (SAR)	Total Nominal Value (SAR)	Percentage of ownership
Red Sea International	20,400,000	10	204,000,000	51%
MSB Company	13,720,000	10	137,200,000	34.3%
Fares Ismat Al-Saadi	3,920,000	10	39,200,000	9.8%
Ziad Jan Al-Sayegh	1,960,000	10	19,600,000	4.9%
Total	40,000,000	10	400,000,000	100%

9.6.3 Organizational Structure of First Fix

As for the organizational structure of First Fix, it is shown in the following graphic:

Figure (9.2): Figure: 9-2: Organizational Structure of First Fix



9.6.4 Summary of First Fix Company's Activities

The Activities of First Fix under its articles of association are as follows:

Table 9.11: Summary of First Fix's activities as they are in the articles of association on the date of publication of this Circular.

Section	Category
Water supply, sanitation activities, waste management and treatment	Water Collection, Treatment and Delivery
Water supply, sanitation activities, waste management and treatment	Sewage and Drainage
Construction	Building Construction
Construction	Construction of roads and railway lines
Construction	Construction of Utility Projects
Construction	Electrical Installation
Construction	Plumbing, Heating and Air Conditioning Works
Construction	Other Structural Fittings
Transportation & Storage	Road Transport of Goods
Transportation & Storage	warehousing

9.7 Valuation of the Debt and the New Shares

The Conversion Factor, which determines the number of shares in the Company the Creditors will receive after the Transaction takes effect, has been agreed between the Company and the Creditors after negotiation and discussion between the Company and the Creditors. The parties agreed that the Conversion Factor would be calculated on the basis that the Company issues shares in the Company with a factor of A/B, where A is the final Debt settlement value agreed in accordance with the Acquisition Agreement and B represents the arithmetic average of the Closing Price of the Company's shares listed on Tadawul over a period of five (5) trading days before the effective date of the Acquisition Agreement. Based on the mentioned Conversion Factor, the Company reached a value equivalent to about 26.40 Saudi Riyals per New Share The Company has relied on the Conversion Factor for the purpose of calculating the debt owed to the Assignees as well as the Shareholders' Loan.

9.7.1 The financial performance and Valuation of First Fix

The following table summarizes the key financial information for First Fix Company for the financial years ending 31 December 2023, and 2024:

Table 9.12: Summary of the important financial information of First Fix for the fiscal years ended 31 December 2023 and 2024

	31 December 2023 [*] Saudi Riyals (in thousands)	31 December 2024 Saudi Riyals (in thousands)	31 March 2025 Saudi Riyals (in thousands)
The condensed profit or loss and other comprehensive income statement			
Revenues	869,246	2,626,200	600,113
Profit for the Period	80,971	238,141	39,970
Total comprehensive income	79,527	240,386	39,958
non-controlling interests Shares	38,968	117,789	19,579
Condensed Statements of Financial Position			
Current Assets	1,119,910	1,474,211	1,658,491
Current Liabilities	(907,987)	(986,880)	(1,038,390)
Net Current Assets	211,923	487,331	620,101
Non-Current Assets	319,469	365,183	278,415
Non-Current Liabilities	(78,146)	(79,510)	(85,554)
Net Non-current Assets	241,323	285,673	192,861

^{*}First Fix is classified as a subsidiary of the Company and its financial statements were consolidated into the Company's statements as of 1 October 2023. Accordingly, the financial information for the year 2023 reflects only the results of the fourth quarter of that year.

As to the valuation of First Fix, the Company, First Fix, and the Selling Partners have agreed on a valuation range between SAR 1,000,000,000 and SAR 1,100,000,000 (subject to any amendments as per the draft closing statement) further the review of the closing statement and the discussions between Red Sea International and First Fix Selling Partners. The Company has followed a number of valuation methodologies to arrive at the valuation related to the Acquisition in question. Taking into consideration the evaluation analysis carried out by Al Rajhi Capital, which include the following:

Discounted Cash Flow Analysis

- Future cash flows are calculated based on First Fix's internal analysis and forecasts, prepared by First Fix's management, as well as future cash flows adjusted based on the forecasts of Red Sea Company and its Advisors, which are naturally more conservative than First Fix management's.
- These cash flows are discounted by using an appropriate discount rate to balance the risk to reach the present value of First Fix.

Analysis of Replicates of Traded and Comparative Companies (P/E)

- Analysis of the repeaters of traded companies similar to First Fix in terms of growth and risk, and was based on the average multiplier of profitability for the capital goods sector traded in the Saudi Market (the "Main Market") and includes a number of companies, after calculating the illiquidity discount and the discount of private companies, and the market data was obtained by FactSet.

Taking into account the above valuation methodologies, the final agreement between the Selling Partners of First Fix and Red Sea Company have reached a final valuation for First Fix of one billion sixty-seven million 1,067,000,000 Saudi Riyals, so the total transaction value (which constitutes 51% of First Fix) is five hundred forty-four million one hundred seventy thousand 544,170,000 Saudi Riyals. The two parties agreed that the compensation for the transaction will be divided into two installments so that the first payment will be represented by an immediate payment of two hundred and fifty million Saudi Riyals (250,000,000) Saudi Riyals, which the Company paid on 16/03/1445H (corresponding to 01/10/2023G), which is also the date of transferring the Selling Partners' shares in First Fix, and that the Subsequent Consideration shall be two hundred and ninety-four million and one hundred and seventy thousand (294,170,000) Saudi Riyals to be paid either in cash or through an in-kind consideration, and it has been agreed The parties shall be the settlement of the Subsequent Consideration in kind by increasing the Company's capital by transferring the Debt. The Company announced on Tadawul website on 22/09/1445H (corresponding to 01/04/2024G) an increase of one hundred million six hundred twenty eight thousand seven hundred twenty four (100,628,724) Saudi Riyals in the value of the Transaction (the "**Correction Factor**"), after reviewing the Company's draft closing statement. Thus, an increase of 27% of the total Debt subject to conversion, accordingly, the total value of the Subsequent Consideration is three hundred ninety-four million seven hundred ninety-eight thousand seven hundred twenty-four (394,798,724 Saudi Riyals) (the "**Total Subsequent Consideration**"), and the total value of the Acquisition is (six hundred forty-four million, seven hundred ninety-eight thousand, seven hundred and twenty-four) (644,798,724) Saudi Riyals. The total number of shares to be issued to the Selling Partners will be (Thirteen million three hundred and ninety thousand eight hundred and seventy six) (13,390,876) shares fully paid up with a nominal value of ten (10) Saudi Riyals per share and a total nominal value of (One hundred and thirty three million nine hundred and eight thousand seven hundred and sixty) (133,908,760) Saudi Riyals. It is worth noting that First Fix has been subject to a single valuation process in respect of the cash portion of the Acquisition Transaction as well as the part related to the Total Subsequent consideration and Debt Conversion Transaction. The following table shows the final figures for First Fix's valuation:

Table 9.13: Valuation of the First Fix Acquisition

Valuation of the Debt Transfer Transaction Associated With The Acquisition of Firstfix	
First Fix Valuation	One Billion and Sixty-Seven Million (1,067,000,000) Saudi Riyals
Total Correction Factor	One hundred and ninety seven million three hundred and eleven thousand two hundred and twenty four (197,311,224) Saudi Riyals
Total First Fix Valuation	One billion, two hundred and sixty-four million, three hundred and eleven thousand, two hundred and twenty-four. SAR (1,264,311,224)
Cash Consideration (paid)	Two hundred and fifty million (250,000,000) Saudi Riyals
Total Subsequent Consideration	Three hundred and ninety four million seven hundred and ninety eight thousand seven hundred and twenty four (394,798,724) Saudi riyals.
Amount Transferred by Assignors	Forty one million three hundred and fourteen thousand four hundred and thirty nine (41,314,439) Saudi riyals.
Net Subsequent Consideration (to be settled by issuing the New Shares to the Selling Partners)	Three hundred and fifty-three million, four hundred and eighty-four thousand, two hundred and eighty-five (353,484,285) Saudi Riyals, through the issuance of thirteen million, three hundred and ninety thousand, eight hundred and seventy-six ordinary shares (13,390,876) fully paid up with a nominal value of ten (10) SAR per share, with a valuation approximately equal to (26.40) Saudi Riyals per share

Valuation of the Debt Transfer Transaction Associated With The Acquisition of Firstfix

Total Consideration (Initial Consideration Paid in cash + Total Subsequent Consideration) representing the total value of the acquisition of (51% of First Fix)	Six hundred and forty-four million seven hundred ninety-eight thousand seven hundred twenty-four Saudi Riyal (644,798,724), considering the number of shares acquired in First Fix, which amounts to 51 shares, the total compensation paid for each share in First Fix is approximately (12,643,112) SAR.
Red Sea Company's share price agreed for the purpose of the transaction (approximate)	(26.40) Saudi Riyals
Total Number of New Shares issued to the Acquisition Creditors	Thirteen Million Three Hundred and Ninety Thousand Eight Hundred and Seventy-Six (13,390,876) ordinary shares fully paid up with a nominal value of (10) ten Saudi Riyals per share
Total nominal value of New Shares issued to the Acquisition Creditors	One Hundred and Thirty Three Million, Nine Hundred and Eight Thousand Seven Hundred and Sixty (133,908,760) Saudi Riyals, based on the nominal value per share of (10) ten Saudi Riyals
Total market value of the New Shares issued to the Acquisition Creditors (according to the Company's share price as of 17/08/2025G)	Six hundred and twenty-one million, eight hundred and seventy-two thousand, two hundred and eighty-one (621,872,281) based on the market value per share of SAR (46.44)
Percentage of the difference between the total market value of the New Shares issued to the Acquisition Creditors and the value of Net Subsequent Consideration	75.9%

9.7.2 Valuation of Debt of Assignment Agreements

As noted, on 08/08/1445H (corresponding to 18/02/2024G), the Company ratified two Assignment Agreements under which MSB and Fares Ismat Al-Saadi transferred parts of the amounts due to them further to the Acquisition Agreement to Mohammed Haider bin Laden and Ghaleb bin Khalid Al-Sharif respectively, thus the Assignees became direct creditors of the Company. The following table shows the final figures for the valuation of the debt of the two Assignment Agreements.

Table 9.14: Valuation of the Debt Transfer Transaction Associated with the Debt Associated with the Assignment Agreements:

Valuation of the Debt Conversion Transaction Associated with Assignment Agreements

The value of the debt of the Assignees	Forty one million three hundred and fourteen thousand four hundred and thirty nine (41,314,439) Saudi riyals
The Red Sea Company's Agreed Share Price for the Purpose of Debt Transfer of Assignment Agreements	(26.40) SAR
Total Number of New Shares Associated with Assignment Agreements	One million five hundred and sixty-five thousand ninety-five (1,565,095) fully paid ordinary shares with a nominal value of (10) ten Saudi riyals per share
Total nominal value of new shares associated with assignment agreements	Fifteen Million Six Hundred and Fifty Thousand Nine Hundred and Fifty (15,650,950) Saudi Riyals, based on the nominal value of one share of (10) Ten Saudi Riyals
Total Market Value of New Shares Linked to Assignment Agreements (as per the Company's share price as of 17/08/2025G)	Seventy-two million, six hundred and eighty-three thousand twelve (72,683,012) Saudi riyals, based on the market value per share of (46.44) Saudi riyals
Percentage of the difference between the total market value of the new shares associated with the Assignment agreements and the debt value of the Assignment agreements	75.9%

9.7.3 First Fix Valuation

The last Debt to be transferred is the loan provided by Al-Dabbagh Group as a shareholder of the Company in a total of eighty one million two hundred twenty-five thousand ninety-seven Saudi Riyals (SAR 81,225,097), and the Debt to be converted consists of several agreements as described in paragraph (11.4.3) (“*Shareholder Loan Agreements*”) of Section (11) (“*Legal Information*”) of this Circular. As stated, the parties agreed to adopt the same conversion rate used for the purpose of valuing the Acquisition Transaction in the context of transferring the Shareholders’ Loan debt. The following table shows the final figures for the valuation of the debt of the Shareholders’ Loan.

Table 9.15: Evaluation of the Debt Conversion Transaction Associated with the Shareholders’ Loan.

Valuation of the Debt Conversion Transaction linked to the Debt of Al-Dabbagh Group	
Shareholder loan debt value	Eighty-one million two hundred and twenty five thousand ninety-seven (81,225,097) Saudi Riyals
Red Sea Company share price agreed for the purpose of transferring the debt of the shareholders’ loan	(26.40) SAR
Total number of new shares associated with shareholders’ loan	Three million seventy-seven thousand twelve (3,077,012) ordinary shares fully paid up with a nominal value of (10) ten Saudi Riyals per share
Total nominal value of new shares associated with the shareholders’ loan	Thirty million seven hundred and seventy thousand one hundred twenty (30,770,120) Saudi Riyals, based on the nominal value per share of (10) ten Saudi Riyals
Total Market Value of New Shares Related to Shareholders’ Loan (As of 17/08/2025G)	One hundred and forty-two million, eight hundred and ninety-six thousand, four hundred and thirty-seven. SAR (142,896,437) based on the market capitalization per share of SAR (46.44)
Percentage of the difference between the total market value of new shares associated with the shareholders’ loan and the value of the shareholders’ loan debt	75.9%

9.7.4 Red Sea Company Valuation

The valuation methodology used by The Red Sea Company for all the transaction debts is market capitalization methodology, and we note that the parties to the Transaction have agreed that the Conversion Factor agreed upon in the Acquisition Agreement is the result of the completion of the Acquisition of 51% of First Fix (represented by the Total Subsequent Consideration). In that context, the parties agreed to revert to the average closing price of the Company’s shares during five trading sessions from 15/11/1444H (corresponding to 04/06/2023G) to 19/11/1444H (corresponding to 08/06/2023G) to reflect the market value of the Company according to the earliest period prior to the date of signing the Acquisition Agreement, based on what was agreed upon between the parties of the Transaction, in addition to synchronize First Fix valuation time with Red Sea Company valuation time. It should also be noted that the same valuation method was used for the purposes of valuing the Shareholders’ Loan Debt Conversion Transaction as well as the debts of the two Assignment Agreement to ensure that there was no discrepancy in the share price Conversion Rate between the Transactions. Accordingly, the share price of Red Sea Company for the purpose of the Transaction was set at SAR (26.40) per share during the mentioned period.

9.7.5 Total Deal Valuation

Below is a table showing the value of the Debt and the value of the New Shares based on the Conversion Factor and the average Closing Price of a traded share in the Company in the period from 15/11/1444H (corresponding to 04/06/2023G) until 19/11/1444H (corresponding to 08/06/2023G), which is approximately SAR 26.40 per share.

Table 9.16: Analysis of the Agreed Conversion Factor and the Company’s Share Price on the Relevant Dates

Date	Daily Trading Volume (shares)	Daily Value (SAR)	Daily Volume-Weighted Average Price (SAR)
19/11/1444H (corresponding to 08/06/2023G)	70,615	1,858,052	26.31
18/11/1444H (corresponding to 07/06/2023G)	138,462	3,659,909	26.43
17/11/1444H (corresponding to 06/06/2023G)	59,223	1,553,281	26.23
16/11/1444H (corresponding to 05/06/2023G)	65,377	1,724,334	26.38
15/11/1444H (corresponding to 04/06/2023G)	157,499	4,195,627	26.64
Total / Average:	491,176	12,991,203	26.40

The following table shows the performance of The Red Sea Company's share price during the year prior to the signing of the Acquisition Agreement:

Table 9.17: Performance of the Red Sea Company's share price during the year preceding the signing of the Acquisition Agreement.

Date	Red Sea International shares price at close trading (SAR)
30/06/2022	27.23
31/07/2022	25.65
31/08/2022	35.25
29/09/2022	31.30
31/10/2022	31.10
30/11/2022	25.40
31/12/2022	22.58
31/01/2023	27.30
28/02/2023	26.00
30/03/2023	25.15
30/04/2023	27.25
31/05/2023	26.15
Last trading day before publication of the circular	
17/08/2025	46.44

The following table shows the number of new shares that will be issued to the Creditors as a result of the Debt Conversion Transaction using the Company's agreed share price:

Table 9.18: Illustration of the Outstanding Debt Owed to Each Creditor and the Number of Shares to be Issued Pursuant to the Agreed-Upon Conversion Factor

Creditor	Amount Due (SAR)	Source of Debt	Company's Agreed Share Price (Approximate) (SAR)	Number of Shares to be Issued (shares)
MSB Holding Company	250,856,367.65	Acquisition Agreement	26.40	9,503,072
Fares Ismat Al-Saadi	63,148,045.42		26.40	2,392,207
Ziad Jan Al-Sayegh	39,479,872.42		26.40	1,495,597
Mohammed Haider bin Laden	25,502,739.32	Assignment Agreement	26.40	966,108
Ghaleb bin Khalid Al-Sharif	15,811,699.43		26.40	598,987
Al-Dabbagh Group	81,225,097	Debt Conversion Agreement	26.40	3,077,012
Total	476,023,821		26.40	18,032,983

The following table shows the figures associated with the transaction in total:

Table 9.19: Clarification of the amounts of debt in favor of each direct creditor and the number of shares to be issued under the agreed Conversion Factor.

Total Valuation of the Debt Conversion Transaction	
Net Subsequent Conversion Associated with the Acquisition of First Fix	Three hundred and fifty-three million, four hundred and eighty-four thousand, two hundred and eighty-five (353,484,285) Saudi Riyals.
The Value of the Debt Associated with the Assignment Agreements	Forty one million three hundred and fourteen thousand four hundred and thirty nine (41,314,439) Saudi riyals.
The Value of the Debt of Al-Dabbagh Group	Eighty one million two hundred and twenty five thousand ninety seven (81,225,097) Saudi Riyals
Total Debt Conversion Transaction Value	Four hundred million twenty-three thousand eight hundred twenty-one (476,023,821) Saudi Riyals
Red Sea Company's Share Price Agreed for the Purpose of the Transaction	(26.40) Saudi Riyals
Total Number of New Shares	Eighteen million thirty-two thousand nine hundred eighty-three (18,032,983) ordinary shares fully paid up with a nominal value of (10) ten Saudi Riyals per share
Total nominal value of new shares	One hundred eighty million three hundred twenty-nine thousand eight hundred thirty (180,329,830) Saudi Riyals, based on the nominal value per share of (10) ten Saudi Riyals
Total market value of new shares (according to the company's share price as at 17/08/2025G)	Eight hundred and thirty-seven million, four hundred and fifty-one thousand, seven hundred and thirty-one (837,451,731) based on the market value per share of SAR (46.44)
Percentage of the difference between the total market value of new shares and the debt subject to the transaction	75.9%

9.8 Compensation for Acquisition Transaction

On 23/11/1444H (corresponding to 16/06/2023G), the Company announced on Tadawul that it had signed an Acquisition Agreement to purchase a 51% stake in First Fix Company's total share capital from the Selling Partners (as the owners of the acquired shares in First Fix), namely (1) MSB Holding Company (as the seller of a 35.70% stake in the total share capital of First Fix), and (2) Faris Esmat Al-Saadi (as the seller of a 10.20% stake in the total share capital of First Fix), and (3) Ziad Jan Al-Sayegh (in his capacity as the seller of a share of (5.10%) of the total share capital of First Fix), for five hundred and forty-four million and one hundred seventy thousand (544,170,000) Saudi Riyals, provided that the first payment of two hundred and fifty million Saudi Riyals (250,000,000) Saudi Riyals is met in cash, and the Company financed that payment through Bank financing obtained from Al Rajhi Bank. The Company announced on Tadawul website on 22/09/1445H (corresponding to 01/04/2024G) an increase of one hundred million six hundred twenty eight thousand seven hundred twenty-four (100,628,724) Saudi Riyals in the value of the Transaction (the "**Correction Factor**"), after the Company reviewed the draft closing statement for a total Acquisition amount of six hundred and forty-four million seven hundred ninety-eight thousand seven hundred twenty-four (644,798,724) Saudi Riyals. The following table shows the compensation for the Acquisition, including the amounts paid in cash, and those that will be met by the Debt Conversion Transaction.

Table 9.20: Compensation for Acquisition

Seller	Number of Shares Sold	Percentage of Shares Sold from First Fix Capital	Down Payment (SAR)	Second Payment (SAR)	Correction Factor for Closing Accounts (SAR)
MSB Holding Company	35.70	35.70%	175,000,000	205,919,000	70,440,106.80
Faris Esmat Al-Saadi	10.20	10.20%	50,000,000	58,834,000	20,125,744.80
Ziad Jan Al-Sayegh	5.1	5.10%	25,000,000	29,417,000	10,062,872.40
Total	51	51%	250,000,000	294,170,000	100,628,724
Total Acquisition Value			644,798,724 Saudi Riyals*		

*Please note that the amounts referred to above do not represent the final amounts due to the Selling Partners, as portions of them have been assigned under the Assignment of Rights Agreements, as set out in Section (11.4.2) ("Assignment Agreement") of Section (11) ("Legal Information") of this Circular.

We also note that the agenda of the General Assembly of the Transaction will contain three separate sections in relation to the Transaction, first of which relates to the approval of the Debt Conversion due as a result of the shareholders' loan by (1) the issuance of three million seventy-seven thousand twelve (3,077,012) ordinary shares in favor of Al-Dabbagh Group, and the other (2) the issuance of thirteen million and three hundred and ninety thousand eight hundred and seventy six (13,390,876) ordinary shares for the benefit of the Selling Partners, and finally (3) The issuance of one million five hundred and sixty-five thousand ninety-five (1,565,095) ordinary shares will be voted on in favor of the Assignees, and in the event of the approval of the resolutions, the Company will issue eighteen million thirty-two thousand nine hundred eighty-three (18,032,983) ordinary shares in favor of Creditors. It should be noted that Al-Dabbagh Holding Group, Commercial Marketing Services & Agencies Co. Ltd., and Trading Development Group Company abstained from voting on the section related to the approval of the resolution on the ratification of the Shareholders' Loan and the resolution to conversion of the Shareholders' Loan at the Company's Extraordinary General Assembly for the Transaction.

9.9 Details of Related Parties with a Direct or Indirect Interest in the Transaction

9.9.1 Details of Related Parties Who Have a Direct or Indirect Interest in the Shareholders' Loan Debt

The Transaction involves the presence of related parties, as a number of the Company's Board member have an interest in the Transaction in their capacity as the owners or employees of Al-Dabbagh Group, such as managers or executives, as Al-Dabbagh Group is a major shareholder in the Company in addition to its capacity as one of the Creditors due to the Shareholder Loan (for more information on the Shareholder Loan, please see paragraph 11.4.3 (*Shareholder Loan Agreements*) of Section 11 (*Legal Information*) of this Circular. Al-Dabbagh Group owns 51% of the Company's capital directly and 19% indirectly, so that its total direct and indirect stake of Al-Dabbagh Group in RSI is 70% of the Company's capital before the Capital Increase. This percentage will decrease as a result of the Transaction, such that the direct stake in the Company's capital will be 38.32%, while the indirect stake will decrease to 11.9% of the Company's capital. Therefore, the total direct and indirect holdings Al-Dabbagh Group in RSI will be reduced to 50.22% of the Company's capital when the Capital Increase resolution becomes effective. The Company's Chairman, Amr Abdullah Al-Dabbagh (in his capacity as the indirect owner of 20% of Al-Dabbagh Group and the sole director of Al-Dabbagh Group), Mohamed Hosni Jazeel (in his capacity as the Executive Director of Al-Dabbagh Group), and Shahad Khaled Nejaim (in her capacity as the Sustainability Director of Al-Dabbagh Group) have disclosed their interest in the Transaction to the Board of Directors of the Company and have subsequently refrained from deliberating and voting on decisions related thereto (it is worth noting that the board resolution No. 83-2023 dated 01/15/1445H (corresponding to 02/08/2023G) did not show the abstention of then conflicted Chairman from deliberating and voting as a related party). In addition, It should be noted that the shareholders related to the shareholders' loan, namely (1) Al-Dabbagh Group, (2) Commercial Marketing Services and Agencies Co. Ltd., and (3) Commercial Development Group, will abstain from voting on the resolution related to the approval of the shareholders' loan as well as the decision to approve the Debt Conversion Agreement at the Extraordinary General Assembly meeting of the Company for the Transaction. The following table shows the nature of conflicts of interest and their impact on the holdings of the Conflicted Directors.

Table 9.21: Statement of the Nature of Conflicts of Interest on the Company's Board of Directors in Relation to the Transaction

The Company's Conflicted Directors									
Name	Nature of Conflict of Interest	Before the Transaction				After the Transaction			
		Stake in the Company		Stake in Al-Dabbagh Group		Stake in the Company		Stake in Al-Dabbagh Group	
		Direct Stake in the Company	Indirect Interest	Direct Stake in Al-Dabbagh Group	Indirect Interest	Direct Stake in the Company	Indirect Interest	Direct Stake in Al-Dabbagh Group	Indirect Interest
Amr Abdullah Al-Dabbagh	In his capacity as the indirect owner of 20% of the capital of Al-Dabbagh Group, which in turn directly owns 51% of the Company's capital and indirectly owns 19%, i.e., a total direct and indirect stake of 70% in the Company's capital before the Capital Increase	None	14%	None	20%	None	10.045%	None	20%

The Company's Conflicted Directors									
Name	Nature of Conflict of Interest	Before the Transaction				After the Transaction			
		Stake in the Company		Stake in Al-Dabbagh Group		Stake in the Company		Stake in Al-Dabbagh Group	
		Direct Stake in the Company	Indirect Interest	Direct Stake in Al-Dabbagh Group	Indirect Interest	Direct Stake in the Company	Indirect Interest	Direct Stake in Al-Dabbagh Group	Indirect Interest
Mohamed Hosni Jazeel	In his capacity as a senior executive in Al-Dabbagh Group, which in turn directly owns 51% of the Company's capital and indirectly owns 19%, i.e. a total direct and indirect stake of 70% in the Company's capital before the Capital Increase	None	None	None	None	None	None	None	None
Shahad Khaled Nejaim	In her capacity as a senior executive in Al-Dabbagh Group, which in turn directly owns 51% of the company's capital and indirectly owns 19%, i.e. a total direct and indirect stake of 70% in the Company's capital before the Capital Increase	None	None	None	None	None	None	None	None

9.9.2 Details of Related Parties Who Have a Direct or Indirect Interest in the Debt of the Acquisition Transaction

The Acquisition Transaction does not involve the presence of related parties, but it should be noted that the members of the Board of Directors of the Company (1) Mr. Sami bin Ahmar bin Salem bin Mahfouz, and (2) Mr. Mohamed Hosni Jazeel are members of the Board of Directors of First Fix, but they were appointed by the Company after the completion of the Acquisition Transaction to represent the Company's interests in the management of First Fix, and neither of them has any direct or indirect interest in the ownership of the Company, Firstfix business, or contracts.

9.10 Effects of the Debt Conversion Transaction on the Company and its Shareholders

The Transaction will be carried out through the Company increasing its capital by 59.6% by converting the debts owed by the Company to the Creditors, amounting to four hundred seventy-six million, twenty-three thousand, eight hundred twenty-one Saudi riyals (SAR 476,023,821). As a result of the Transaction, the holdings of the Current Shareholders in the Company will decrease from 100% to 62.64% (excluding the new shares that will be issued to Al-Dabbagh Group). This will result from increasing the capital from three hundred two million, three hundred forty-four thousand Saudi riyals (SAR 302,344,000) to four hundred eighty-two million, six hundred seventy-three thousand, eight hundred thirty Saudi riyals (SAR 482,673,830) through the issuance of new shares to the Creditors. The number of shares will be increased from thirty million, two hundred thirty-four thousand, four hundred (30,234,400) ordinary shares to forty-eight million, two hundred sixty-seven thousand, three hundred eighty-three (48,267,383) ordinary shares. It is worth mentioning that the completion of the Transaction is subject to the approval of the Company's Extraordinary General Assembly.

The following table illustrate the impact of the Debt Conversion on the share price using the share price as determined by the Conversion Factor (SAR 26.4):

Table 9.22: explanation of the impact of total Debt Conversion on share prices using the issue price determined by the Conversion Factor (26.40 SAR)

Debt to be Converted into Shares (SAR)	Hypothetical Issue Price (Conversion Ratio) (SAR)	Hypothetical Closing Price of the Shares on the Date of the EGM (SAR)	Number of Shares to be Issued	Capital Corresponding to the New Shares (SAR)	Number of Current Issued Shares	Total Number of Shares Issued after the Debt Conversion	Market Value of the Company Before the Debt Conversion (SAR)	Market Value of the New Shares (SAR)	Market Value of the Company After the Debt Conversion (SAR)	Share Price After Debt Conversion (SAR)
a	b	c	a/b=d	Nominal value x d (SAR 10) Per share = e	f	d + f=g	f = h x c	d = i x c	h + i = j	j/g=k
476,023,821	26.4	46.44	18,032,983	180,329,830	30,234,400	48,267,383	1,404,085,536	837,451,731	2,241,537,267	46.44

Source: The Company

* The Company's share price is indicative only (calculated on 17/08/2025G), and the closing price of the share may vary on the date of the Extraordinary General Assembly related to the Debt Conversion Transaction.

The following table illustrate the impact of Debt Conversion into share ownership for an individual shareholder, using the issue price determined by the Conversion Factor (26.40 SAR).

Table 9.23: Illustration of the impact of Debt Conversion on the share ownership of an individual shareholder based on he agreed upon issue price (Conversion Factor) of 26.4

Description		based on he agreed upon issue price (26.4 SAR)
Number of current issued shares	A	30,234,400
Number of New Shares issued	B	18,032,983
Total number of shares issued after the Debt Conversion	a+b=c	48,267,383
Number of shares owned by the investor (hypothetically)	D	650,000
Illustrative sole ownership before Debt Conversion (%)	d/a = e	2.15%
Illustrative sole ownership after Debt Conversion (%)	d/c = f	1.35%
Impact of Debt conversion on illustrative individual ownership(%)	((f/e)-1) x 100	(37.36%)
Number of shares owned by Current Shareholders (hypothetically)	G	9,070,332
Illustrative Current Shareholders' ownership before Debt Conversion (%)	g/a =h	30%
Illustrative Current Shareholders' ownership after Debt conversion (%)	g/c =i	18.8%
Impact of Debt Conversion on illustrative Current Shareholders' ownership (%)	((i/h)-1) x 100	(37.36%)

Source: The Company

By carrying out the Transaction, the Company aims to improve and support the Company's solvency and enhance the Company's overall financial position, including reducing the cumulative loss percentage.

9.11 Proposed Schedule and Key Steps of the Debt Conversion Transaction

Table 9.24: Proposed Schedule and Key Steps of the Debt Conversion Transaction

Event	Timeline / Date
1. Procedures relating to the Extraordinary General Assembly	
Capital Market Authority approval of the Capital Increase application and publication of the Shareholders Circular	09/04/1447H (corresponding to 01/10/2025G)
Tadawul website announcement of the invitation to the Company's Extraordinary General Assembly for the Transaction (mentioning the possibility of holding a second meeting one hour after the end of the period specified for the first meeting, in the event that the quorum necessary for holding the first meeting is not met)	09/04/1447H (corresponding to 01/10/2025G)
Publication of the Shareholders Circular	09/04/1447H (corresponding to 01/10/2025G)
Provision of documents available for inspection	From 09/04/1447H (corresponding to 01/10/2025G) until the expiry date of the offer period (from Sunday to Thursday from 9 am to 5 pm, excluding public holidays in the Kingdom)
Commencement of the electronic voting period for the shareholders at the Company's Extraordinary General Assembly for the Transaction	09/04/1447H (corresponding to 01/10/2025G)
Convening of the Company's Extraordinary General Assembly for the Transaction (first meeting); the Assembly quorum will be met if shareholders representing at least half of the voting rights in Red Sea Company are present.	09/04/1447H (corresponding to 01/10/2025G)
Convening of the Company's Extraordinary General Assembly for the Transaction (second meeting) if the necessary quorum for the first meeting is not met; the quorum for the second meeting will be met if shareholders representing at least one-quarter of the voting rights in Red Sea Company are present.	One hour after the expiry of the period specified for the convening of the first meeting of the Extraordinary General Assembly in which the necessary quorum was not met
Publication on the Tadawul website of the Transaction resolution and other resolutions taken at the first or the second meeting of the Extraordinary Company's General Assembly for the Debt Conversion Transaction (or an announcement that the Extraordinary General Assembly was not convened in the event that the quorum is not met)	09/04/1447H (corresponding to 01/10/2025G)
2. Procedures in the event that the quorum for the first and second meetings of the Company's Extraordinary General Assembly is not met	
Tadawul website announcement of the invitation to the third meeting of the Company's Extraordinary General Assembly for the Debt Conversion Transaction	09/04/1447H (corresponding to 01/10/2025G)
Commencement of the electronic voting period for the shareholders at the third meeting of the Company's Extraordinary General Assembly	09/04/1447H (corresponding to 01/10/2025G)
Convening of the third meeting of the Company's Extraordinary General Assembly for the Debt Conversion Transaction; the quorum for the convening of the third meeting of the Extraordinary General Assembly will be met regardless of the number of shares represented therein.	09/04/1447H (corresponding to 01/10/2025G)
Publication on the Tadawul website of the resolution to increase the Company's capital through Debt Conversion and other resolutions passed at the third meeting of the Company's Extraordinary General Assembly.	09/04/1447H (corresponding to 01/10/2025G)
3. Completion of the Transaction	
Submission to the Capital Market Authority of a copy of the Extraordinary General Assembly meeting minutes	Within ten days of the date the Company's Extraordinary General Assembly approves the Transaction That is, on 09/04/1447H (corresponding to 01/10/2025G) if a resolution to approve the Transaction is issued during the first or second meeting of the Company's Extraordinary General Assembly And on 09/04/1447H (corresponding to 01/10/2025G) if a resolution to approve the Transaction is issued during the third meeting of the Company's Extraordinary General Assembly
Issuance and listing of the New Shares on Tadawul and allocation thereof to the Creditors and depositing them in their portfolios as identified in this Circular	No earlier than the third trading period after the Capital Increase resolution becomes effective and no later than the sixth trading period after the capital increase resolution becomes effective

Event	Timeline / Date
Amendment of the Company's Bylaws and commercial register	Within fifteen days from the date of the Extraordinary General Assembly's approval of the capital increase on the Transaction resolution 2025/1447H (corresponding to 2025/2025G)) if a resolution to approve the Transaction is issued during the first or second meeting of the Company's Extraordinary General Assembly 2025/1447H (corresponding to 2025/2025G)) if a resolution to approve the Transaction is issued during the third meeting of the Company's Extraordinary General Assembly

10. Financial Information

The section “**Consolidated Financial Information**” should be read in addition to the pro forma unaudited summary consolidated financial information prepared for the Company for the nine-month period ended on 30 September 2023G, the audited consolidated financial statements of the Company for the fiscal years ended on 31 December 2020G, 2021G, and 2022G, and the unaudited interim summary consolidated financial statements of the Company for the three-month and nine-month periods ended on 30 September 2023G.

Neither the Auditor nor any of its employees (who form part of the team that provided services to the Company) or the relatives of these employees has shares or interests of any kind in the Company or its subsidiaries that would affect their independence. As at the date of this Circular, the Auditor, Ernst & Young Professional Services, submitted their written approval to be mentioned in this Circular regarding their role as the Company’s Auditor for the fiscal years ended on 31 December 2020G, 2021G, and 2022G and the nine-month period ended on 30 September 2023. They had not withdrawn that approval as of the date of this Circular.

The pro forma unaudited summary consolidated financial information has been prepared by the Company’s management to reflect the financial impact on the unaudited summary consolidated financial statements of the Company for the three-month and nine-month periods ended on 30 September 2023G, as if the Transaction had occurred on 01 January 2023G and the resulting adjustments during the remainder of the fiscal period ended on 30 September 2023G. For illustrative purposes only, this pro forma unaudited summary consolidated financial information has been prepared based on the assumption that the liabilities payable to the Creditors have been derecognized through the Company’s issuance of ordinary shares with a nominal value of SAR 10 and a share premium of SAR 16.2. The pro forma adjustments are based on the assumptions set out in the notes to the pro forma unaudited summary consolidated financial information and do not represent the actual financial results or position of the Company and its subsidiaries.

10.1 Summary of the Company’s Pro Forma Financial Information After Completion of the Transaction

10.1.1 Pro Forma Statement of Financial Position as on 30 September 2023G

The following table shows a comparison between the unaudited and pro forma consolidated statement of financial position as on 30 September 2023G:

Table 10.1: Comparison Between the Unaudited and Pro Forma Consolidated Statement of Financial Position as on 30 September 2023G

SAR (‘000)	As on 30 September 2023G		
	30 September 2023G (Unaudited)	Pro forma adjustments	30 September 2023G (Pro forma)
Assets			
Non-Current Assets			
Property, machinery, and equipment	60,264	-	60,264
Investment properties	221,541	-	221,541
Intangible assets	1,814	-	1,814
Right-of-use assets	35,126	-	35,126
Investment in unconsolidated subsidiary	-	394,799	394,799
Total Non-Current Assets	318,745	394,799	713,544
Current Assets			
Inventory	75,624	-	75,624
Contract assets	47,588	-	47,588
Trade receivables	130,653	-	130,653
Advances to suppliers	41,526	-	41,526
Prepayments and other receivables	22,018	-	22,018

SAR ('000)	As on 30 September 2023G		
	30 September 2023G (Unaudited)	Pro forma adjustments	30 September 2023G (Pro forma)
Cash and cash equivalents	262,556	-	262,556
Total Current Assets	579,965	-	579,965
Total Assets	898,710	394,799	1,293,509
Equity and Liabilities			
Equity			
Capital	302,344	180,330	482,674
Share premium	-	295,694	295,694
Cumulative losses	(225,123)	(1,675)	(226,798)
Foreign currency translation reserve	(11,779)	-	(11,779)
Equity Accruing to Shareholders in the Parent Company	65,442	474,349	539,791
Non-Controlling Stakes	(26,517)	-	(26,517)
Total Equity	38,925	474,349	513,274
Non-Current Liabilities			
Term loan	247,500	-	247,500
Employee benefit liabilities	21,426	-	21,426
Other non-current liabilities	27,483	-	27,483
Non-current portion of lease liabilities	32,059	-	32,059
Total Non-Current Liabilities	328,468	-	328,468
Current Liabilities			
Trade payables	102,212	-	102,212
Payables and other current liabilities	187,434	-	187,434
Interest-bearing short-term loans and advances	92,471	-	92,471
Current portion of lease liabilities	9,892	-	9,892
Amount due to a shareholder	82,233	(81,225)	1,008
Contract liabilities	23,207	-	23,207
Payable zakat and income tax	33,868	1,675	35,543
Total Current Liabilities	531,317	(79,550)	451,767
Total Liabilities	859,785	(79,550)	780,235
Total Equity and Liabilities	898,710	394,799	1,293,509

Source: The financial statements for the nine-month period ended on 30 September 2023G and the pro forma consolidated financial information prepared for the Company for the nine-month period ended on 30 September 2023G

The pro forma adjustments to the pro forma consolidated financial position as on 30 September 2023 are as follows:

- A SAR 180.3 million increase in the Company's capital and a SAR 295.7 million increase in the share premium as a result of converting debts into equity
- A SAR 394.8 million increase in investment in a non-consolidated subsidiary, which is equivalent to the in-kind consideration for the acquisition of First Fix
- A SAR 81.2 million decrease in the amount payable to the shareholder, representing the debt owed to Al-Dabbagh Holding Group
- A SAR 1.7 million increase in payable zakat payable due to the increase in the Company's capital, which in turn would lead to an increase in the zakat base, resulting in a SAR 1.7 million increase in cumulative losses

10.1.2 The Company's Pro Forma Income Statement for the Nine-Month Period Ended on 30 September 2023G

The following table sets out a comparison between the audited and pro forma consolidated statement of profit and loss for the nine-month period ended on 30 September 2023G.

Table 10.2: Comparison of the Audited and Pro Forma Consolidated Statement of Profit or Loss for the Nine-Month Period Ended on 30 September 2023G

SAR '000	Nine-Month Period ended on 30 September 2023G		
	30 September 2023G (Unaudited)	Pro forma adjustments	30 September 2023G (Pro forma)
Revenues	347,216	-	347,216
Cost of revenues	(342,222)	-	(342,222)
Gross Earnings	4,994	-	4,994
Expenses			
Sale and distribution	(10,650)	-	(10,650)
General and administrative	(34,542)	-	(34,542)
Operating Loss	(40,198)	-	(40,198)
Other revenue (loss), net	(538)	-	(538)
Financing costs	(10,042)	-	(10,042)
Financing revenues	530	-	530
Loss Before Calculation of Zakat	(50,248)	-	(50,248)
Zakat	(4,501)	(1,675)	(6,176)
Loss for the Period	(54,749)	(1,675)	(56,424)
accruing to:			
Shareholders of the parent company	(52,667)	(1,675)	(54,342)
Non-controlling stakes	(2,082)	-	(2,082)
	(54,749)	(1,675)	(56,424)
Loss Per Share			
Weighted average number of ordinary shares ('000)	30,234	18,033	48,267
Loss Per Primary and Discounted Share Accruing to Shareholders in the Parent Company	(1.74)	(0.09)	(1.13)

Source: The financial statements for the nine-month period ended on 30 September 2023G and the pro forma consolidated financial information prepared for the Company for the nine-month period ended on 30 September 2023G

10.1.3 The Company's Pro Forma Statement of Cash Flow for the Nine-Month Period Ended on 30 September 2023G

The following table sets out a comparison between the audited and pro forma consolidated statement of cash flows for the nine-month period ended on 30 September 2023G.

Table 10.3: Comparison Between the Audited and Pro Forma Consolidated Statement of Cash Flows for the Nine-Month Period Ended on 30 September 2023G

SAR '000	Nine-month period ended on 30 September 2023G		
	30 September 2023G (Unaudited)	Pro forma adjustments	30 September 2023G (Pro forma)
Operating Activities		-	
Loss before calculation of zakat	(50,248)	-	(50,248)
Adjustments to settle the loss for the year pre-zakat with net cash flows:			
Depreciation of property, machinery, and equipment	9,236	-	9,236
Depreciation of investment properties	35,193	-	35,193
Amortization of intangible assets	554	-	554
Depreciation of right-of-use assets	8,053	-	8,053
Movement in employee benefit liabilities, net	(429)	-	(429)
Financing costs	10,042	-	10,042
Loss related to the sale of investment property, machinery, equipment, and real estate	1,399	-	1,399
	13,800	-	13,800
Working capital adjustments:			
Inventory	(2,043)	-	(2,043)
Contract assets	7,391	-	7,391
Trade receivables	(3,848)	-	(3,848)
Advances to suppliers	38,414	-	38,414
Prepayments and other receivables	11,967	-	11,967
Trade Payables	(70,483)	-	(70,483)
Payables and other current liabilities	15,875	-	15,875
Other non-current liabilities	551	-	551
Contract liabilities	(23,047)	-	(23,047)
Cash Used in Operations	(11,423)	-	(11,423)
Paid financing cost	(11,159)	-	(11,159)
Paid zakat and income tax	(388)	-	(388)
Net Cash Used in Operating Activities	(22,970)	-	(22,970)
Investment activities			
Purchase of investment property, machinery, equipment, and real estate	(1,357)	-	(1,357)
Revenue from the sale of investment property, machinery, equipment, and real estate	5,289	-	5,289
Net Cash from Investment Activities	3,932	-	3,932

10.1.4 Comparison of the Company's KPIs According to the Pro Forma Consolidated Financial Information and the Company's Financial Statements

The following table shows a comparison of the Company's KPIs based on the consolidated financial statements and the pro forma financial information for the fiscal period ended on 30 September 2023G.

Table 10.4: Comparison of the Company's KPIs Based on the Consolidated and the Pro Forma Financial Statements for the Fiscal Period Ended on 30 September 2023G

	Nine-month period ended on 30 September 2023G	
	30 September 2023G (Unaudited)	30 September 2023G (Pro forma)
Gross profit (loss) margin (%) ⁽¹⁾	1.44%	1.44%
Net profit (loss) margin (%) ⁽²⁾	-15.77%	-16.25%
Return on assets (%) ⁽³⁾	-6.09%	-4.36%
Return on equity (%) ⁽⁴⁾	-140.7%	-11.0%
Ratio of long-term loans to total equity and total long-term loans (times) ⁽⁵⁾	6.36x	0.48x

Source: The financial statements for the nine-month period ended on 30 September 2023G and the pro forma consolidated financial information prepared for the Company for the nine-month period ended on 30 September 2023G

(1) Gross profit (loss) margin was calculated by dividing gross profit (loss) by revenue.

(2) Net profit (loss) margin was calculated by dividing net profit (loss) by revenue.

(3) Return on assets was calculated by dividing the net profit (loss) for the year by total assets.

(4) Return on equity was calculated by dividing the net profit (loss) for the year by total equity.

(5) Ratio of long-term loans to total equity and total long-term loans was calculated by dividing the total long-term loans by the sum of total equity and total long-term loans.

Table 10.5: Comparison of the Company's KPIs for Working Capital Based on the Consolidated and Pro Forma Financial Statements for the Fiscal Period Ended on 30 September 2023G

	Nine-month period ended on 30 September 2023G	
	30 September 2023G (Unaudited)	30 September 2023G (Pro forma)
Working capital as a percentage of net loss for the year (%) ⁽¹⁾	203.74%	56.70%
Days in inventory (days) ⁽²⁾	81	81
Accounts receivable days (days) ⁽³⁾	137	137
Accounts payable days (days) ⁽⁴⁾	109	109
Current ratio (times) ⁽⁵⁾	1.09x	1.28x

Source: The financial statements for the nine-month period ended on 30 September 2023G, and the pro forma consolidated financial information prepared for the company for the nine-month period ended on 30 September 2023G.

(1) Working capital was calculated as a percentage of the net loss for the year by dividing working capital (total current assets (excluding cash and cash equivalents and Murabaha term deposits) less total current liabilities (excluding the current portion of long-term loans, short-term loans, and lease liabilities)) by the net loss for the year.

(2) Days in inventory was calculated by dividing the inventory by the cost of sold goods, multiplied by 365 days.

(3) Trade accounts receivable days was calculated by dividing the net trade receivables by revenue, multiplied by 365 days.

(4) Trade accounts payable days was calculated by dividing the net trade payables by the cost of goods sold, multiplied by 365 days.

(5) The current ratio was calculated by dividing the total current assets by the total current liabilities.

10.2 Increase or Decrease in the Company's Earnings Per Share Due to the Capital Increase

The following table shows the loss per share for the fiscal period ended on 30 September 2023G and the impact thereon of the Debt Conversion.

Table 10.6: Comparison of the Loss Per Share in the Consolidated and Pro Forma Financial Statements for the Fiscal Period Ended on 30 September 2023G

	Nine-month period ended on 30 September 2023G	
	30 September 2023G (Unaudited)	30 September 2023G (Pro forma)
Loss accruing to owners of ordinary shares in the Parent Company (SAR)	(52,667)	(54,342)
Weighted average number of ordinary shares ('000)	30,234	48,267
Loss per share (SAR)	(1.74)	(1.13)

Source: The financial statements for the nine-month period ended on 30 September 2023G and the pro forma consolidated financial information prepared for the Company for the nine-month period ended on 30 September 2023G

Profit or loss per share is calculated by dividing the profit or loss for the period accruing to owners of ordinary shares in the Parent Company by the weighted average number of existing ordinary shares during the period.

The loss per share after the hypothetical Debt Conversion Transaction decreased from SAR 1.74 per share to SAR 1.13 per share as a result of the increase in the number of shares from 30.2 million shares to 48.3 million shares as a result of the Debt Conversion, despite the increase in zakat costs equivalent to SAR 1.8 million.

10.3 Company Share Price Performance

The following figure shows the change in the Company's share price during the period from 16 March 2023G to 29 August 2024G:

Figure (10.1): Change in the Company's Share Price During the Period from 16 March 2023 to 29 August 2024

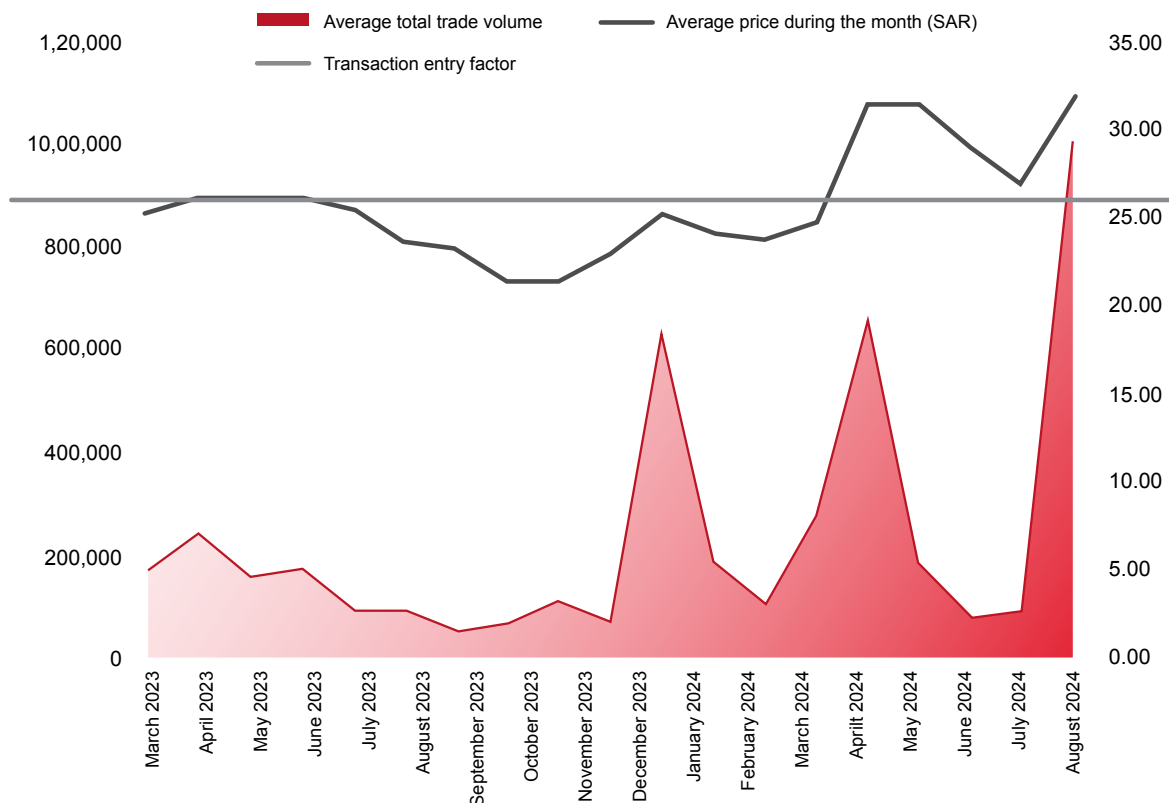


Table 10.7: Table 10.7: Share Price Performance During the Period from 16 March 2023 to 29 August 2024:

Year	2023										2024							
Month	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May	June	July	August
Average total current quantity	173,961	244,659	159,110	176,948	97,088	92,966	54,135	67,897	113,087	73,232	191,445	108,359	280,396	664,511	186,040	82,410	94,431.57	1,017,864
Average price during the month (SAR)	25.54	26.15	26.21	26.26	25.56	23.82	23.30	21.50	21.41	23.02	24.2	23.9	24.8	31.5	31.6	29	27.1	32.0

Source: Tadawul (as on 29 August 2024G)

To obtain the Company's share price on any date other than the dates mentioned above, the shareholders or anyone interested can refer to the Company's page on the Tadawul website.

10.4 Summary of the Company's Audited Financial Statements for the Fiscal Years Ended on 31 December 2020G, 2021G, and 2022G and the Company's Unaudited Financial Statements for the Fiscal Period Ended on 30 September 2022G and 2023G

10.4.1 Consolidated Statement of Financial Position

Table 10.8: Consolidated Statement of Financial Position for the Fiscal Years Ended on 31 December 2020G, 2021G, and 2022G and the Company's Unaudited Financial Statements for the Fiscal Period Ended on 30 September 2022G and 2023G

SAR '000	As on 31 December			As on 30 September	
	2020G	2021G	2022G	2022G	2023G
Assets					
Non-Current Assets					
Property, machinery, and equipment	90,980	79,863	68,589	69,746	60,264
Investment properties	356,267	305,441	262,976	275,116	221,541
Intangible assets	4,230	3,330	2,368	2,678	1,814
Right-of-use assets	58,009	46,896	43,179	39,443	35,126
Trade receivables	31,495	31,495	-	31,495	-
Investment in an associate	10,146	7,921	-	6,673	-
Total Non-Current Assets	551,127	474,946	377,112	425,151	318,745
Current Assets					
Inventory	123,117	141,367	73,581	99,041	75,624
Contract assets	43,764	46,050	54,979	47,060	47,588
Trade receivables	184,488	156,370	126,805	146,608	130,653
Advances to suppliers	48,098	77,906	79,940	66,031	41,526
Prepayments and other receivables	58,905	49,496	33,985	47,086	22,018
Cash and cash equivalents	31,594	5,838	32,342	26,374	262,556

SAR '000	As on 31 December			As on 30 September	
	2020G	2021G	2022G	2022G	2023G
Total Current Assets	489,966	477,027	401,632	432,200	579,965
Total Assets	1,041,093	951,973	778,744	857,351	898,710
Equity and Liabilities					
Equity					
Capital	600,000	600,000	302,344	302,344	302,344
Cumulative losses	(146,217)	(278,834)	(172,456)	(103,721)	(225,123)
Foreign currency translation reserve	(12,087)	(11,779)	(11,779)	(11,779)	(11,779)
Equity Accruing to Shareholders in the Parent Company	441,696	309,387	118,109	186,844	65,442
Non-Controlling Stakes	(20,870)	(22,798)	(24,435)	(24,040)	(26,517)
Total Equity	420,826	286,589	93,674	162,804	38,925
Non-Current Liabilities					
Term loan	36,608	-	-	-	247,500
Employee benefit liabilities	32,997	31,331	21,855	28,933	21,426
Other non-current liabilities	25,075	25,712	26,932	26,711	27,483
Non-current portion of lease liabilities	43,509	34,721	33,143	32,088	32,059
Total Non-Current Liabilities	138,189	91,764	81,930	87,732	328,468
Current Liabilities					
Trade payables	138,160	194,902	172,695	170,518	102,212
Payables and other current liabilities	178,694	178,556	172,676	183,478	187,434
Interest-bearing short-term loans and advances	79,273	118,656	117,267	114,077	92,471
Current portion of interest-bearing loans	26,365	21,429	5,143	7,714	-
Current portion of lease liabilities	13,014	14,281	13,325	7,949	9,892
Amount due to a shareholder	-	-	46,025	-	82,233
Contract liabilities	22,603	15,839	46,254	90,835	23,207
Payable zakat and income tax	23,969	29,957	29,755	32,244	33,868
Total Current Liabilities	482,078	573,620	603,140	606,815	531,317
Total Liabilities	620,267	665,384	685,070	694,547	859,785
Total Equity and Liabilities	1,041,093	951,973	778,744	857,351	898,710

Source: The financial statements for the nine-month period ended on 30 September 2023G and the pro forma consolidated financial information prepared for the Company for the nine-month period ended on 30 September 2023G

10.4.2 Consolidated Statement of Profit or Loss and Other Comprehensive Income

Table 10.9: Consolidated Statement of Profit or Loss for the Fiscal Years Ended on 31 December 2020G, 2021G, and 2022G and the Company's Unaudited Financial Statements for the Fiscal Period Ended on 30 September 2022G and 2023G

SAR '000	As on 31 December			Nine-month period ended on 30 September	
	2020G	2021G	2022G	2022G	2023G
Revenues	533,520	468,201	419,569	269,207	347,216
Cost of revenues	(561,868)	(496,545)	(475,438)	(332,344)	(342,222)
Gross Earnings	(28,348)	(28,344)	(55,869)	(63,137)	4,994
Expenses					
Sale and distribution	(29,363)	(18,049)	(16,739)	(13,143)	(10,650)
General and administrative	(72,606)	(62,987)	(117,230)	(42,975)	(34,542)
Impairment of intangible assets	(8,234)	-	-	-	-
Operating Loss	(138,551)	(109,380)	(189,838)	(119,255)	(40,198)
Share of proceeds from an investment in an associate	(2,454)	(2,225)	(616)	(1,248)	-
Impairment of an investment in an associate	-	-	(7,305)	-	-
Other revenue (loss), net	855	1,618	12,418	11,663	(538)
Financing costs	(13,662)	(10,537)	(9,455)	(8,551)	(10,042)
Financing revenues	350	58	33	21	530
Loss Before Calculation of Zakat	(153,462)	(120,466)	(194,763)	(117,370)	(50,248)
Zakat	(8,664)	(11,788)	(2,965)	(6,415)	(4,501)
Income tax	-	(113)	(41)	-	-
Loss for the Year from Ongoing Operations	(162,126)	(132,367)	(197,769)	(123,785)	(54,749)
Profit after tax for the year from suspended operations	180	-	-	-	-
Loss for the Year	(161,946)	(132,367)	(197,769)	(123,785)	(54,749)
accruing to:					
Shareholders of the parent company	(158,323)	(130,439)	(196,132)	(122,543)	(52,667)
Non-controlling stakes	(3,623)	(1,928)	(1,637)	(1,242)	(2,082)
	(161,946)	(132,367)	(197,769)	(123,785)	(54,749)
Loss Per Share					
Weighted average number of ordinary shares ('000)	60,000	30,234	30,234	30,234	30,234
Loss Per Primary and Discounted Share Accruing to Shareholders in the Parent Company	(2.64)	(4.31)	(6.49)	(4.05)	(1.74)

Source: The financial statements for the nine-month period ended on 30 September 2023G and the pro forma consolidated financial information prepared for the Company for the nine-month period ended on 30 September 2023G

10.4.3 Consolidated Statement of Cash Flows

Table 10.10: Consolidated Statement of Cash Flows for the Fiscal Years Ended on 31 December 2020G, 2021G, and 2022G and the Company's Unaudited Financial Statements for the Fiscal Period ended on 30 September 2022G and 2023G

SAR '000	As on 31 December			As on 30 September 2023G	
	2020G	2021G	2022G	2022G	2023G
Net cash flows from (used in) operating activities	55,985	(10,490)	12,894	50,268	(22,970)
Net cash flows used in investing activities	(45,813)	(3,994)	(3,791)	(890)	3,932
Net cash flows from (used in) financing activities	(73,090)	(11,566)	17,401	(28,842)	249,252
Increase (decrease) in cash and cash equivalents	(62,918)	(26,050)	26,504	20,536	230,214
Cash and cash equivalents at the beginning of the year	107,079	31,594	5,838	5,838	32,342
Movement in foreign currency translation reserve (net)	(2,613)	294	-	-	-
Cash and cash equivalents relating to a sold subsidiary	(9,954)	-	-	-	-
Cash and cash equivalents at the end of the year	31,594	5,838	32,342	26,374	262,556

Source: The financial statements for the nine-month period ended on 30 September 2023G and the pro forma consolidated financial information prepared for the Company for the nine-month period ended on 30 September 2023G

11. Legal Information

11.1 Declarations of the Red Sea Company Board Members

The Company's Board of Directors members declare that:

1. Both the Debt Conversion and the Acquisition are not in violation of the relevant laws and regulations in the Kingdom of Saudi Arabia.
2. The issuance does not breach any of the contracts or agreements to which the Company is a party.
3. All material legal information related to the Company has been disclosed in the Circular.
4. This Section includes all the material legal information related to the Debt Conversion documents that the Company shareholders should take into consideration to make a well-informed voting decision.
5. This section includes all the material legal information about the acquisition's documents, which the issuer's shareholders should take into consideration to make a well informed voting decision;
6. There is no other material legal information not included in this Section the omission of which makes other statements misleading.

Except as disclosed in paragraph 9.9 (*Details of Related Parties with a Direct or Indirect Interest in the Transaction*) of Section 9 (*Conversion of the Debt into Shares Through Capital Increase*) of this Circular, the Company's Board of Directors members (other than the Conflicted Directors) confirm that they have no direct or indirect interest in the Issuer's shares or in the Creditors' shares or business or in any contract entered into or to be entered into between the parties to the Transaction, and that they acknowledge their complete independence with respect to the issue of the shares subject of this Circular.

The Company's Board of Directors members (other than the Conflicted Directors), after taking into account the market position on the publication date of this Circular and after exercising the necessary due diligence as they deem fit in the circumstances, believe that the Transaction is in the interest of the Company and its shareholders. Accordingly, they unanimously recommend to the Company shareholders to approve the Transaction resolutions. In making this recommendation, the Company's Board of Directors members (other than the Conflicted Directors) have taken into account the external advice they have received on legal, financial, accounting, strategic, and other matters relating to the Transaction.

It should be noted that all of the Company's Board of Directors members (other than the Conflicted Directors) who will vote on the Transaction resolutions at the Company's Extraordinary General Assembly for the Transaction will vote to approve the Transaction resolutions.

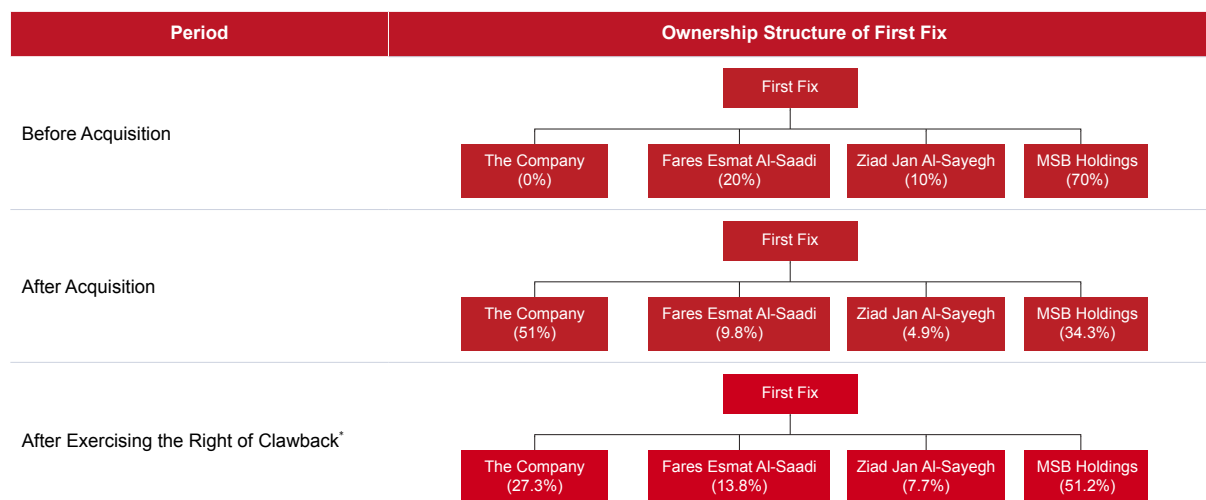
It should be noted that the Company's Board of Directors members (other than the Conflicted Directors) have not taken into consideration the individual investment objectives, financial position, zakat and tax position, or special circumstances of each shareholder, due to the different circumstances, positions, and objectives of each of them. Accordingly, the Company's Board of Directors members (other than the Conflicted Directors) affirm the need for Company shareholders to obtain independent professional advice from a licensed Financial Advisor regarding the Transaction. Shareholders must rely on their own review of the Transaction to ascertain whether the Transaction and the information contained in this Circular are compatible with their own investment objectives and financial positions.

11.2 Legal Structure of the Debt Conversion Transaction

11.2.1 Summary of the Legal Structure of the Acquisition Transaction

The First Fix Acquisition is concluded as a private equity transaction whereby the Company has undertaken all the usual procedures for acquisitions of similar size and significance by conducting valuations through a licensed Financial Advisor and Legal Counsel, each of whom has provided its professional services by preparing the necessary assessment and conducting due diligence on First Fix, and then the Company has entered into the Acquisition Transaction, as described in paragraph (11.4.1) (*Agreements Related to the Debt Arising from the Acquisition*) of Section (11) (*Legal Information*) of this Circular, the completion of the Acquisition Transaction was on 16/03/1445H (corresponding to 01/10/2023G), which means that on the date of this Circular, the Company is considered a partner of 51% of the capital of First Fix, and in the event that the Company does not succeed in completing the Debt Conversion Transaction and the Company cannot pay the Net Subsequent Consideration in cash, the Selling Partners will have the right to exercise the right of clawback, according to which the Company's ownership in First Fix will decline to 27.3% of the capital of First Fix. Fix, which may have a negative impact on the Company's assets and returns. The following is a diagram showing the structure of the Acquisition and the ownership of Firstfix, both before and after the Acquisition, and in the event of the Company's failure to pay the Net Subsequent Consideration and the exercise of the right of clawback by the Selling Partners:

Figure (11.1): Comparison of the ownership structure of First Fix before and after the acquisition and in the case of the realization of the right of clawback.



* These percentages represent the final percentages due to the Selling Partners, after some of the Selling Partners assigned the rights granted to them under the Acquisition Agreement in favor of the Assignees

11.2.2 Summary of the Legal Structure of the Debt Conversion Process

The Transaction will be carried out in accordance with the provisions of Article 126(b) of the Companies Law and the provisions of Article 59 of the Rules on the Offer of Securities and Continuing Obligations. All the debts owed by the Company to the Creditors will be converted, and all rights and obligations associated with the Transaction and the parties concerned will be settled under the Transaction Agreements in exchange for the issuance of the New Shares and the allocation thereof to the Creditors by increasing the Company's capital through debt conversion.

The Transaction will include the settlement of all debts and liabilities owed by the Company to the Creditors under the Transaction Agreements (including the liabilities and payables associated with the parties concerned), consisting mainly in the settlement of the liabilities associated with the Company's acquisition of First Fix, the Assignment Agreements, and the Loan Agreement, all of which became payable and outstanding by the effective date of the Transaction.

In exchange for the issuance of the New Shares in the Company to the Creditors, the liabilities owed to the Creditors by the Company and any associated rights will be waived in accordance with the Transaction Agreements. This includes rights related to the reclamation shares owned by the Company in First Fix and any other rights related to the Acquisition Agreement and the ancillary agreements which the Selling Partners or interested parties hold in relation to the Net Subsequent Consideration. In addition, the guarantees provided by the Company to the Selling Partners in connection to the completion of the Acquisition will be released. Because the Company is considered a partner in First Fix, the Transaction will not include any change in the Company's equity in First Fix, i.e., no new shares will be issued to the Company in exchange for its holdings in First Fix under the Acquisition Agreement. The Transaction, if completed, will be considered a comprehensive settlement of all rights and obligations between the Company and the Creditors and their interested parties in relation to the Transaction and under the agreements related to the Transaction, namely the Acquisition Agreement, the Assignment Agreements and the Shareholder Loan Agreements.

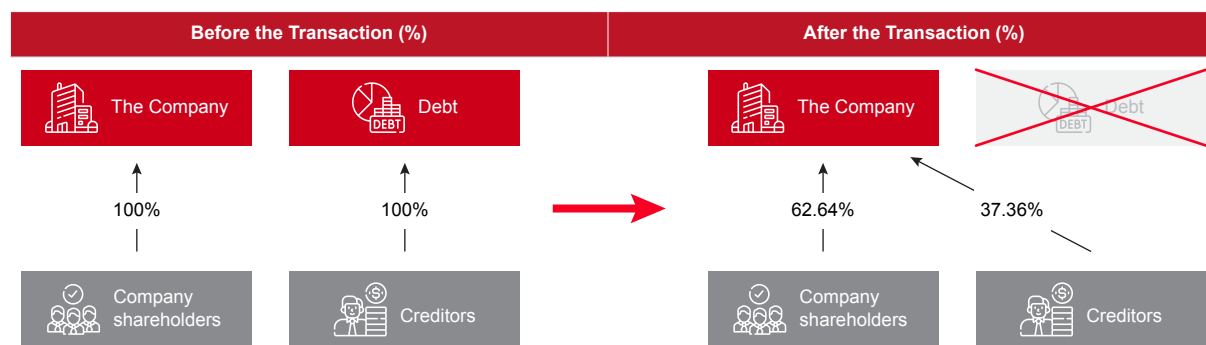
It is worth noting that in the event that the Company's Extraordinary General Assembly for the Transaction does not approve the Acquisition Transaction, then the Company will have the option of either paying the Selling Partners the Net Subsequent Consideration in cash, or granting the Selling Partners (according to their ownership shares) the Clawback shares, which will result in the Company's ownership in First Fix decreasing to 27.3% instead of 51%, as recorded in the Company's books as of the date of this Circular.

As a result of the Transaction, the Creditors will receive a total of eighteen million, thirty-two thousand, nine hundred eighty-three (18,032,983) shares in Red Sea Company in exchange for the settlement of the Company's outstanding liabilities as a result of the Transaction Agreements. These New Shares will be issued by increasing the Company's capital from three hundred two million, three hundred forty-four thousand Saudi Riyals (SAR 302,344,000) to four hundred eighty-two million, six hundred seventy-three thousand, eight hundred thirty Saudi Riyals (SAR 482,673,830) by increasing the number of issued shares in the Company from thirty million, two hundred thirty-four thousand (30,234,000) shares to forty-eight million, two hundred sixty-seven thousand, three hundred eighty-three (48,267,383) ordinary shares, which represents a 59.64% increase from the Company's total current capital. The total number of New Shares will be eighteen million, thirty-two thousand, nine hundred eighty-three (18,032,983) shares with a nominal value of (10) Saudi riyals per share, so that the total nominal value of the New Shares will be one hundred eighty million, three hundred twenty-nine thousand, eight hundred thirty Saudi riyals (SAR 180,329,830). Upon the completion of the Transaction, the Company's Current Shareholders will own 62.64% of the Company's capital (excluding the new shares that will be issued to Al-Dabbagh Group), and the Creditors will own 37.36% of the Company's capital (excluding Al-Dabbagh Group's current stake in the Company's capital, which in direct terms amounts to 51% of the Company's capital and in indirect terms 19%, so that its total direct and indirect stake is 70% of the Company's capital before the Capital Increase. This percentage will

decrease as a result of the Transaction, such that the direct stake in the Company's capital will be 38.32%, while the indirect stake will decrease to 11.9% of the Company's capital. Therefore, the total direct and indirect holdings will be 50.22% of the Company's capital when the Capital Increase resolution becomes effective).

Below is a simplified summary of the legal structure of the Debt Conversion Transaction, noting that the Company will be liable for the debt during the period when the Transaction is carried out:

Figure (11.2): Figure 11.12: Comparison of the Company ownership structure before and after the Capital Increase



(1) It should be noted that Al-Dabbagh Group's current stake in the Company's capital is not factored into the above figure.

11.3 Approvals Necessary to Complete the Transaction

11.3.1 Government Approvals and Relevant Agencies

The Transaction requires a number of government approvals, and relevant authorities which are as follows:

- Obtaining the non-objection of the General Authority of Competition, this General Authority of Competition non-objection was obtained on 26/01/1445H (corresponding to 13/08/2023G)
- Obtaining Saudi Exchange (Tadawul) approval of the Company's application to list the New Shares issued to the Creditors; this Saudi Exchange (Tadawul) approval was obtained on 15/05/1446H, corresponding to 17/11/2024G.
- Obtaining Capital Market Authority approval of Red Sea Company's application to register and offer the New Shares; this Capital Market Authority approval was obtained on 09/04/1447H, corresponding to 01/10/2025G.
- Obtaining Ministry of Commerce approval of the proposed amendments to the Company's Bylaws.
- Obtaining the contractually required creditor approvals. The Company obtained all contractually required approvals on 5/03/1446H (corresponding to 08/09/2024G).

On the date of issuance of this Circular, the Company has obtained all the relevant government approvals, except for the Ministry of Commerce Approval on the amendments of the Company's Bylaws which shall take place following the approval of the Extraordinary General Assembly for the Transaction.

11.3.2 Extraordinary General Assembly Approval

One of the conditions for completing the Debt Conversion Transaction is to obtain the approval of the Company's Extraordinary General Assembly by obtaining the approval of the required majority, i.e., the approval of three-fourths (75%) of the voting rights represented in the meeting of the Company's Extraordinary General Assembly for the Transaction and other relevant resolutions, which will be mentioned in the agenda of the invitation to the meeting of the Company's Extraordinary General Assembly.

The Company will submit a request to the Capital Market Authority to invite the Extraordinary General Assembly after the publication of this Circular. After obtaining the approval of the Capital Market Authority to hold the Extraordinary General Assembly, the Company will publish the invitation to the meeting of the Assembly, which must be held at least 21 days after the date of publication of the invitation.

A meeting of the Company's Extraordinary General Assembly will be valid if attended by shareholders representing at least half of the capital of the Company. If this quorum is not met at the first meeting, the second meeting of the Extraordinary General Assembly will be held one hour after the expiry of the period specified for the convening of the first meeting, provided that the invitation for the convening of the first meeting has included a statement that a second meeting may be held one hour after the expiry of the period specified for the convening of the first meeting if the quorum is not met. The second meeting of the Extraordinary General Assembly will be valid if attended by shareholders representing at least one-quarter of the Company's capital. In the event that the necessary quorum is not met at the second meeting, the Company will apply to the Capital Market Authority for approval to hold a third meeting of the Extraordinary General Assembly at least 21 days after the publication date of the previous invitation. The third meeting will be valid regardless of the number of shares represented therein.

All shareholders registered in the Company Shareholders Register at the end of trading on the day of the Extraordinary General Assembly meeting for the Transaction will be entitled to attend the Extraordinary General Assembly. Any shareholder may attend in person and vote on the agenda items or authorize another person to attend and vote as a proxy in accordance with the relevant procedures, whether or not such person is a shareholder in the Company, provided that such person is not a member of the Company's Board of Directors or an employee of the Company. The authorization will be in writing, signed by the authorizing shareholder, and attested by the Chamber of Commerce or a person licensed by the Capital Market Authority, the Notary Public, or persons licensed to authenticate. The proxy must present the original of the authenticated authorization when attending on the day of the Extraordinary General Assembly, in addition to the original of their national ID, passport, or resident ID. Shareholders will also be able to vote remotely (electronically) on the agenda items of the Extraordinary General Assembly for the Transaction through the Tadawulaty system, which is a service provided by Tadawul. Shareholders must sign up for Tadawulaty to benefit from the service. Note that registration and/or voting through Tadawulaty is free and available to all shareholders. Electronic voting will be available at least 3 days before the date of the Extraordinary General Assembly. The dates on which electronic voting will be available will be specified in the invitation to the Extraordinary General Assembly.

The Transaction resolution will be approved during the Company's Extraordinary General Meeting if the approval resolution is passed by a three-fourths majority of the shares represented at the meeting (whether in person or by proxy). Votes in Extraordinary General Assemblies will be calculated on the basis of one vote per share. A shareholder who fails to attend the Extraordinary General Assembly for the Transaction, whether in person, by proxy, or electronically (via Tadawulaty), loses his right to vote on the resolutions of the Assembly.

11.4 Summary of All Significant Contracts and Agreements for the Capital Increase Transaction for the Purpose of Debt Conversion

11.4.1 Agreements Related to the Debt Arising from the Acquisition

11.4.1.1 Acquisition Agreement

The Company concluded the Acquisition Agreement on 20/11/1444H (corresponding to 09/06/2023G) with the Selling Partners in First Fix. This contract included conditions for the implementation of the Debt Conversion Transaction, in addition to certain undertakings and guarantees by the management of the two companies. Therefore, the Transaction will be subject to the conditions set out in the terms of the Acquisition Agreement, which are mentioned in the table below, as well as the provisions of the relevant laws and regulations.

Below is a summary of the Acquisition Agreement terms

Table 11.1: Summary of the Most Important Terms of the Acquisition Agreement

Provision	Summary						
Parties	- The Company (in its capacity as the purchaser of the shares sold in First Fix, amounting to 51% of the total share capital of First Fix) - The Selling Partners (in their capacity as the owners of the shares in First Fix subject of the Acquisition), namely: • MSB Holding Company (in its capacity as the seller of a stake amounting to 35.70% of the total share capital of First Fix) • Fares Ismat Al-Saadi (in his capacity as the seller of a stake amounting to 10.20% of the total share capital of First Fix) • Ziad Jan Al-Sayegh (in his capacity as the seller of a stake amounting to 5.10% of the total share capital of First Fix)						
Number of shares sold to the Company							
	Seller	Number of sold shares	Sold shares as a percentage of the capital of First Fix	First payment (SAR)	Percentage of shares subject to Clawback ⁽²⁾	Second payment (SAR)	Closing account Correction Factor (SAR)
	MSB Holding Company	35.70	35.70%	175,000,000	19.30%	205,919,000	70,440,106.80
	Fares Ismat Al-Saadi	10.20	10.20%	50,000,000	5.51%	58,834,000	20,125,744.80
	Ziad Jan Al-Sayegh	5.1	5.10%	25,000,000	2.76%	29,417,000	10,062,872.40
	Total	51	51%	250,000,000	27.57%	294,170,000	100,628,724
	Total Acquisition Value			SAR 644,798,724 ⁽¹⁾			
(1) It should be noted that the amounts shown above do not represent the final amounts owed to the Selling Partners, as portions thereof have been assigned under the two Assignment Agreements, accordingly, these amounts were corrected as indicated in Section 11.4.2 (Assignment Agreement) of Section 11 (Legal Information) of this Circular. (2) It should be noted that the assignment of the Assigned Debt by the Selling Partners resulted in the set-off of the Clawback shares to the extent equal to the Assigned Debt as the case requires for the relevant Selling Partners.							

Provision	Summary
Total purchase price and consideration payment method	The parties to the Acquisition Agreement agreed that the share sale consideration would be divided into two payments, the first being immediate cash consideration of two hundred fifty million Saudi Riyals (SAR 250,000,000) to be paid on the date of the Acquisition transaction. The second payment would be either through the Company's payment of the remaining amount of the transaction in cash or through the Company's issuance of new shares in the Company to the Selling Partners, as described below, with a value equivalent to two hundred ninety-four million, one hundred seventy thousand Saudi Riyals (SAR 294,170,000) (subject to certain swap transactions, including any corrections as a result of the closing accounts). Following the Company's review of a draft closing statement, as indicated in the below item in this table, the parties agreed to increase the second payment by one hundred million, six hundred twenty-eight thousand, seven hundred twenty-four Saudi Riyals (SAR 100,628,724). This brought the second payment to three hundred ninety-four million, seven hundred ninety-eight thousand, seven hundred twenty-four Saudi Riyals (SAR 394,798,724). As mentioned, the Net Subsequent Consideration will, depending on the Company's choice, be paid to the Selling Partners either through: - Cash consideration in the amount of the Net Subsequent Consideration for each Selling Partner, as set out in the summary of the number of shares sold to the Company in this summary; or - In-kind consideration in the form of shares in the Company, tradable on the Saudi Exchange and free of any encumbrances, for each Selling Partner, at the value of the second payment as shown in the summary of the number of shares sold to the Company in this table, and at a share price to be set in accordance with the valuation formula specified in this summary. The Company has exercised its right to settle the Net Subsequent Consideration in kind by carrying out this Transaction.
Adjustment of the total purchase price	The Acquisition Agreement stipulated that the total purchase price will be adjusted by adjusting the value of the Total Subsequent Consideration using exchange equations. First Fix would, within a period not exceeding fifty (50) days from the closing date, provide the Company with a draft closing statement showing the actual working capital, actual debts, and actual cash as of the closing date. The total of the second payment would then be adjusted based on the deficit (or excess) in working capital, debts, and cash of First Fix pursuant to its financial statements for fiscal year 2022G. After the draft closing statement, the parties agreed to increase the valuation of First Fix to become one billion, two hundred and sixty-four million, three hundred and eleven thousand, two hundred and twenty-four. SAR (1,264,311,224) which resulted in an increase in the Total Subsequent Consideration followed by the Correction Factor by one hundred million, six hundred twenty-eight thousand, seven hundred twenty-four Saudi Riyals (SAR 100,628,724).
Conditions precedent to completion	The completion of the purchase of First Fix was conditional on the fulfillment of a number of conditions. Below is a summary of the important conditions: - General Authority for Competition approval obtained upon or before the transfer of the First Fix shares to the Company. - An exemption for the Selling Partners from cross-guarantees held with Modern Business Leaders and Innovative Contractors for Advanced Dimensions. - Conversion of all administrative fees due and unpaid to the Selling Partners and their subsidiaries by First Fix, amounting to SAR 64,393,774 (as of 07/06/1444H corresponding to 31/12/2022G), into shares in First Fix for the Selling Partners, in addition to a written acknowledgment obtained from each seller that there are no outstanding administrative fees that have not been paid to the seller or any of its subsidiaries.
Completion obligations	- Upon closing, the Selling Partners must deliver the following to the purchaser: - The executed original of the shareholder agreement; - The executed original of the strategic alliance agreement; - The executed original of the supplemental disclosure letter; - A copy of the duly notarized and executed amended of First Fix's articles of association, approved by the Ministry of Commerce; - A First Fix resolution approving the appointment of up to two (2) of the First Fix board members nominated by the purchaser as members of First Fix board of managers; and - Resolutions of the MSB Holding Company Board of Directors approving the entry into the transaction and the implementation of the supplementary disclosure letter. - Upon closing, the purchaser must deliver the following to the Selling Partners: - The power of attorney granted by the purchaser to an authorized representative in connection to the implementation of the amended of First Fix's articles of association; - The executed original of the shareholder agreement; - The resolutions of the purchaser's directors approving the transaction and nominating two (2) members of the First Fix's board of managers; - The executed original of the supplemental disclosure letter relating to the guarantees of First Fix and the Selling Partners; and - Payment of the initial amount by immediate electronic transfer to the bank accounts of the Selling Partners (as directed by each Seller in writing at least five (5) working days prior to closing).
Clawback of Shares	The Acquisition Agreement stated that if the Company could not pay the Total Subsequent Consideration to the Selling Partners in cash or in kind on or before the longstop date of RSI Shares Long Stop Date (as defined under the Acquisition Agreement), any Seller will have the right to demand in writing that the purchaser transfer to each of the Selling Partners the proportion of the outstanding shares to which each seller is entitled, as set out in the "Number of Shares Sold to the Company" clause. This, will result in the Company's ownership in First Fix decreasing from 51% as it is as of the date of the Circular to 23.43%. It is worth mentioning that with the assignment of MSB Holding Company and Fares Ismat Al-Saadi of Selling Partners rights in favor of the Assignees under the two Assignment Agreements, resulted in a reduction in the Clawback Shares due to the Selling Partners from 27.57% of the total capital of First Fix to 23.7% of the total capital of First Fix.

Provision	Summary
First Fix guarantees	First Fix has provided a number of guarantees related to First Fix. Below is a summary of the most important of these guarantees: - Essential guarantees of capacity and authority. - Guarantees related to the ownership of shares. - Guarantees related to the main documents and institutional documents. - Guarantees related to First Fix's compliance with relevant laws and regulations. - Guarantees related to First Fix obtaining the necessary licenses and powers to engage in its business. - Guarantees related to insurance, including that all insurance policies are valid and enforceable. - Guarantees related to powers of attorney, including that there are no existing powers of attorney on behalf of First Fix. - Guarantees related to disputes and investigations, including that there are no disputes or investigations to which First Fix is a party. - Guarantees related to contracts, including that First Fix has not materially breached any of its existing contracts. - Guarantees related to transactions with the Sellers, including that there is no existing loan or financial liability between First Fix and any of the Sellers, their subsidiaries, or any of director or employee of First Fix, except as disclosed to the Company. - Guarantees related to financing and guarantees, including that there is no existing debt, guarantee, or mortgage under which First Fix has an obligation. - Guarantees related to bankruptcy, including that First Fix has not taken any action to declare bankruptcy and is not unable to pay its financial obligations. - Guarantees related to the environment, including not violating any environmental regulations related to pollution, and that no legal actions have been taken or threatened against First Fix for violating environmental regulations. - Guarantees related to intellectual property rights, including First Fix obtaining the necessary intellectual property licenses for its work. - Guarantees related to employment, including adherence to all labor laws. - Guarantees related to taxes, including the payment of VAT for which First Fix is responsible and that there are no additional fines or fees. - Guarantees related to the transfer of First Fix shares, meaning that the acquisition of First Fix shares will not relieve any party contracting with First Fix of any obligations owed to First Fix.
Limitation of the Selling Partners' liability	The Selling Partners' liability in respect of any claim is several and proportionate to their ownership percentages (not joint liability). The Selling Partners will not be liable unless the amount of a single claim exceeds one million Saudi riyals, in which case the Company will have the right to claim the full amount and not just the excess. The Selling Partners will not be liable unless the amount of all claims is more than twenty (20) million Saudi riyals, in which case the Company will have the right to claim the full amount and not only the excess.
Termination of the Agreement	Either party has the right to terminate the Agreement in the following cases: - In the event of a material breach by a party to the Agreement. - In the event that the Agreement is not closed by the long-term cutoff date, unless this date is extended by the parties to the Agreement. The Company has the right to terminate the Agreement in the following cases: - In the event that the Company finds that there is a breach of any of the guarantees or that the guarantees are incorrect. - In the event that the supplementary disclosure letter includes additional information that constitutes a breach of the guarantees (other than the essential guarantees), resulting in claims with an estimated value of at least at 15% of the total purchase price, or that constitutes a breach of the essential guarantees.
Governing law and dispute resolution	The Acquisition Agreement is governed by the laws of the Kingdom of Saudi Arabia. In the event of a dispute between the parties, the parties will attempt to find an amicable solution within thirty (30) days of the date the parties are notified of any dispute arising out of this Agreement. If the parties fail to reach an amicable solution, the Saudi courts will have jurisdiction to settle all disputes arising out of this Agreement.
Valuation of the Company's shares	The Acquisition Agreement stipulated that if the Company chooses to settle the Total Subsequent Consideration through the issuance of Company shares, the total number of Company shares to be allocated to the Sellers will be calculated as follows: $A+B$ Where: A = Total Subsequent Consideration B = The arithmetic average of the volume-weighted daily Closing Price with regard to the public sale price of the Company's shares listed on the Saudi Exchange during a Trading Period of five (5) days prior to the effective date

Accordingly, the Net Subsequent Consideration will be settled in kind under the Acquisition Agreement as follows:

Table 11.2: Explanation of the Nature of the Net Subsequent Consideration due to Selling Partners

Creditor	Amount Due From Net Subsequent Consideration	Amount as a Percentage of the Total Debt Subject of the Transaction	Number of New Shares Granted
MSB Holding Company	250,856,367.65	52.7%	9,503,072
Fares Ismat Al-Saadi	63,148,045.42	13.3%	2,392,207
Ziad Jan Al-Sayegh	39,479,872.42	8.3%	1,495,597
Total	353,484,285	74.3%	13,390,876

The total amount due from the Subsequent Net Compensation has been rounded to the nearest whole number

In addition to the main agreement document, the Company has concluded a number of agreements and ancillary documents, some of which are mentioned as follows:

11.4.1.2 Financing Agreement

The Company entered into a financing agreement with Al Rajhi Bank dated 15/08/1444H (corresponding to 07/03/2023G) and worth three hundred thirty million Saudi Riyals (SAR 330,000,000), for the purpose of financing the first payment of the Acquisition, represented in cash consideration of two hundred fifty million Saudi Riyals (SAR 250,000,000), to be repaid over a period of 7 years at 6-month SAIBOR discount rate and a margin of 2.50% per annum. The financing agreement included a number of restrictions and guarantees imposed on the Company, as follows:

- The Company is prohibited from issuing any new shares or making any changes to its capital before obtaining the written approval of the Bank, which the Company obtained on 02/03/1446H (corresponding to 05/09/2024G).
- The Company is prohibited from paying, distributing, or declaring any profits before obtaining the written approval of the Bank.
- The Company pledges a number of assets owned by some of the major shareholders in the Company and its sister companies in favor of the Bank.
- The Company pledges the shares it owns in First Fix (amounting to 51% of the total share capital of First Fix) in favor of the Bank upon the conversion of First Fix into a closed joint stock company.
- The Company assigns any profits or proceeds from the Company's stake in First Fix to the Bank throughout the financing or repayment period.
- The Company waives and affirms the waiver of project revenues accepted by the Bank at a coverage rate of 200% of the total annual payment amount.
- The Company undertakes not to make any change in the ownership of the Company and First Fix throughout the financing or repayment period.

The Bank reserves the right to liquidate the shares and assets pledged in its favor in the event of total or partial nonpayment. It should be noted that the Financial Advisor for the Transaction (Al Rajhi Capital) is a subsidiary of the Bank.

11.4.1.3 Shareholders Agreement

The Company entered into the shareholders agreement on 16/03/1445H (corresponding to 01//2023G). This agreement included several clauses and controls on the Selling Partners' ownership in First Fix, as is the case with the Company's ownership in First Fix, in addition to how the Company's shares are valued. If the Company chooses to settle the Total Subsequent Consideration through the issuance of shares in the Company, the total number of Company shares to be allocated to the Selling Partners will be calculated as follows: A+B Where: A = The value of the put option or the value of the call option, where the value of the put option is the Company's average income in a five-year period multiplied by 9.7 and the value of the call option is the Company's average income in a five-year period multiplied by 9.7 B = The arithmetic average of the volume-weighted daily Closing Price with regard to the public sale price of the Company's shares listed on the Saudi Exchange during a Trading Period of five (5) days prior to the signing date. It should be noted that two Selling Partners have transferred some of the rights owed to them to their Assignees under the Assignment Agreements, as set out in paragraph 11.4.2 ("Assignment Agreement") of this Section 11 ("Legal Information") of this Circular. The terms of the agreement have prevented the partners in First Fix from disposing of their shares in First Fix during a contractual lockup period of four years from the date of signature, which means that the Company will not be able to dispose of its shares in First Fix during the contractual ban period referred to. We note that the Company has pledged its holdings in First Fix under the financing agreement mentioned below. The shareholder agreement also included a clause requiring the Company (as long as it remains the owner of 51% of First Fix's capital) to undertake to provide the necessary guarantees to First Fix's providers of financial facilities and Creditors in an amount commensurate with the Company's stake in First Fix. On 11/10/1446H (corresponding to 09/04/2025G), the parties executed an amendment to the Shareholders' Agreement, approving the initial public offering (IPO) of First Fix through the offering of 30% of its share capital. With reference to the invitation of the Company's Extraordinary General Assembly meeting dated 08/03/1447H corresponding 31/08/2025G in order to vote on

the substantial deal of listing the shares of First Fix through an initial public offering on Tadawul, the Company confirms that it will not sell any of the shares owned by it in First Fix in such listing. The Company shall disclose and announce any changes or developments that might occur in this regard. The amendment also included the Company's waiver of its call option and the selling Partners waiver of their put option in First Fix. The Company confirms that, as of the date of this Circular, it has no intention to sell any of its shares or equity interests in First Fix through the IPO process. The Company will disclose any material changes or developments that may arise in the future.

11.4.1.4 Strategic Alliance Agreement

The Acquisition Agreement included an undertaking that First Fix would enter into a strategic alliance agreement with Modern Building Leaders Company, a closed joint stock company established under the laws of the Kingdom of Saudi Arabia operating in the field of general construction and major civil projects as a condition of the completion of the Acquisition Agreement, and it should be noted that MSB (one of the Acquisition Creditors and a Selling Partner in First Fix) owns and controls the entire capital of Modern Building Leaders Company. Upon completion of the Transaction, the Company will disclose its dealings as well as First Fix's dealings with Modern Building Leaders Company if the nature of such transaction requires disclosure under the provisions of Article (65) of the Rules on the Offer of Securities and Continuing Obligations. First Fix concluded the strategic alliance agreement on 16/03/1445H (corresponding to 01/10/2023G), and the agreement mainly focused on the solidarity of the two parties in submitting bids for projects of common interest exclusively in order to strengthen First Fix's position in the relevant projects space and give it strategic opportunities that enable it to develop its activities and commercial capacity, and the agreement lasts for four years from the date of its signing.

11.4.2 Assignment Agreement

The Company (as a debtor) ("**the Obligor**") has ratified Assignment Agreements entered into by the Selling Partner and the Assignees (as defined below) that are identical in terms and conditions. The parties to the Acquisition Agreement agreed to grant an exception to the Acquisition Agreement by allowing (a) MSB Holding Company and (b) Fares Ismat Al-Saadi (as defined at the beginning of this Circular as "**Assignees**") to transfer a portion of the amounts due to them from the Total Subsequent Consideration, in this regard, the Company has ratified two Assignment Agreements as follows: (a) the assignment agreement with Mohammed Haider bin Laden, and (b) the assignment agreement with Ghaleb bin Khalid Al-Sharif (they are also identified at the beginning of this Circular as the "**Assignees**"). The Assignment Agreements included a clause stating that the amount resulting from the assignment could be fulfilled by allocating certain amounts from the Total Subsequent Consideration in accordance with the terms and conditions contained in the Acquisition Agreement. Two addendum to the Assignment Agreements were later signed with the same parties on 02/19/1447H corresponding to 08/13/2025G), with the aim of clarifying the consideration due to the Assignors and the mechanism for settling the Assigned Debt, including the possibility of settling the amount in cash by the Company, in the event that the Company is unable to complete the Capital Increase Transaction and issue the allocated shares, without the company incurring any additional obligation under this these addendums. Below are two tables summarizing the substantive provisions of the Assignment Agreements.

11.4.2.1 The Assignment Agreement with Mohammed Haider bin Laden

Table 11.3: Details of the Assignment Agreement Signed with Mohammed Haider bin Laden

Provision	Summary
Parties	1. The Company (as a party to the Acquisition Agreement and an Obligor) 2. MSB Holding Company (as a party to the Acquisition Agreement and an Assignor of 6.46% of the Total Subsequent Consideration) 3. Mohammed Haider bin Laden (as an Assignee with respect to 6.46% of the Total Subsequent Consideration) 4. Fares Ismat Al-Saadi (as a party to the Acquisition Agreement) 5. Ziad Jan Al-Sayegh (as a party to the Acquisition Agreement)
Subject of the Agreement	Assignment of a portion of the amounts due to the Assignors from the Total Subsequent Consideration to the Assignees "In the amount of 25,502,739.32 SAR to Mohammed Haidar Bin laden.
Consideration	Under the Agreement, the parties agreed that the consideration for the Agreement is that MSB Holding will assigned twenty-five million, five hundred two thousand, seven hundred thirty-nine Saudi riyals and thirty-two halalas (SAR 25,502,739.32) to Mohammed Haider bin Laden, representing 6.46% of the Subsequent Consideration. The agreement stipulated that an adequate and appropriate consideration was provided in exchange for the Assigned Debt (i.e., the New Shares allocated to the Assignee). It is worth noting that the Company has no actual involvement in these agreements, as they pertain solely to the Assignors and the Assignees. The sole reason for the Company's signature on the Assignment Agreement was to comply with the provisions of the Acquisition Agreement, which required the consent of all parties to the agreement, including the Company, for any waiver, assignment, or transfer of any rights or obligations of any party under the Acquisition Agreement. This does not constitute the company's approval of the commercial or legal content of the Assignment Agreements, and no additional rights or obligations are imposed on the Company under the Assignment Agreements. Subsequently, an addendum to the Assignment Agreement was signed on 19/02/1447H corresponding to 13/08/2025G to clarify the consideration and the settlement mechanism, including the possibility of settling the amount of the debt transferred in cash in the event that the Company fails to complete the Capital Increase Transaction and issue the allocated shares. The parties agreed that the number of new shares granted to the Assignees will be calculated according to the Conversion Factor agreed in the Acquisition Agreement.

11.4.2.2 Assignment Agreement with Ghaleb bin Khalid Al-Sharif

Table 11.4: Details of the Assignment Agreement Signed with Ghaleb bin Khalid Al-Sharif

Provision	Summary
Parties	1. The Company (as a party to the Acquisition Agreement and an Obligor) 2. Fares Ismat Al-Saadi (as a party to the Acquisition Agreement and an Assignor of 4.01% of the Total Subsequent Consideration) 3. Ghaleb bin Khalid Al-Sharif (as an Assignee with respect to 4.01% of the Total Subsequent Consideration) 4. MSB Holding Company (as a party to the Acquisition Agreement) 5. Ziad Jan Al-Sayegh (as a party to the Acquisition Agreement)
Subject of the Agreement	Assignment of a portion of the amounts due to the Assignor from the Total Subsequent Consideration to the Assignee (Ghalib bin Khalid Al-Sharif), in the amount of (15,811,699.43) Saudi Riyals (the "Assigned Debt").
Consideration	Under the Agreement, the parties agreed that the consideration for the Agreement is that Fares Ismat Al-Saadi will assigned fifteen million, eight hundred eleven thousand, six hundred ninety-nine Saudi Riyals and forty-three halalas (SAR 15,811,699.43) to Ghaleb Khalid Al-Sharif, representing 4.01% of the Subsequent Consideration. The agreement stipulated that an adequate and appropriate consideration was provided in exchange for the Assigned Debt (i.e., the New Shares allocated to the Assignee). It is worth noting that the Company has no actual involvement in these agreements, as they pertain solely to the Assignors and the Assignees. The sole reason for the Company's signature on the Assignment Agreement was to comply with the provisions of the Acquisition Agreement, which required the consent of all parties to the agreement, including the Company, for any waiver, assignment, or transfer of any rights or obligations of any party under the Acquisition Agreement. This does not constitute the company's approval of the commercial or legal content of the Assignment Agreements, and no additional rights or obligations are imposed on the Company under the Assignment Agreements. Subsequently, an addendum to the Assignment Agreement was signed on 19/02/1447H corresponding to 13/08/2025G to clarify the consideration and the settlement mechanism, including the possibility of settling the amount of the debt transferred in cash in the event that the Company fails to complete the Capital Increase Transaction and issue the allocated shares. The parties agreed that the number of new shares granted to the Assignees will be calculated according to the Conversion Factor agreed in the Acquisition Agreement.

11.4.3 Shareholder Loan Agreements

11.4.3.1 Loan Agreements

The Company has concluded several agreements with identical terms and conditions with Al-Dabbagh Group as a loan provider, in its capacity as a major shareholder in the Company, with a total amount equivalent to eighty-one million, two hundred twenty-five thousand, ninety-seven Saudi Riyals (SAR 81,225,097) in several installments. The agreements included several clauses stating that the related debts are free of any interest or profit margins in favor of the loan provider. The agreements also stated that the amounts due under the agreements are subordinate to any other debts and obligations incurred by the Company. It is worth mentioning that under the Rules on the Offer of Securities and Continuing Obligations. The following table outlines the details of the shareholders loan agreements and the amendments:

Table 11.5: Overview of Shareholders' Loan Agreements

	Amount (SAR)	Date	Agreement Summary
4.	45,225,097.35	18/05/1444H (corresponding to 12/12/2022G)	The Main Loan Agreement was signed on 18/05/1444H (corresponding to 12/12/2022G) by and between the Company and Al-Dabbagh Group in its capacity as a major shareholder in the Company, with a value of forty-two million, twenty-five thousand, ninety-seven Saudi Riyals and thirty-five halalas (SAR 42,025,097.35), providing that the amount would be payable on 03/10/1445H (corresponding to 12/04/2024G). The Company later reviewed the existing accounts between it and Al-Dabbagh Group and categorized such account into (current account - debtor account), and through this process, it became clear to the Company that there were differences amounting to a total of three million two hundred thousand (3,200,000) Saudi Riyals. Accordingly, the parties agreed to review the initial amount and adjusted it to match what is stated in the parties' accounting records, as shown in the first column of this table. It should be noted that the loan is free of any interest or financing cost, and the agreement expressly states that this loan is subordinate to any other obligations incurred by the Company. Under the agreement, Al-Dabbagh Group has waived any right or claim it has under this agreement.

	Amount (SAR)	Date	Agreement Summary
5.	13,200,000	24/07/1444H (corresponding to 15/02/2023G)	The main Loan Agreement was signed on 24/07/1444H (corresponding to 15/02/2023G) by and between the Company and Al-Dabbagh Group in its capacity as a major shareholder in the Company, with a value of thirteen million, two hundred thirty thousand Saudi Riyals (SAR 13,230,000), providing that the amount would be payable on 07/11/1445H (corresponding to 15/05/2024G). The Company later reviewed the accounts between it and Al-Dabbagh Group and categorized such account into (current account - debtor account). Through this process, it became clear to the Company that there was an error in the report resulting in an increase of thirty thousand (30,000) Saudi Riyals. Accordingly, the parties agreed to review the initial amount and adjusted it to match what is stated in the parties' accounting records, as shown in the first column of this table. It should be noted that the loan is free of any interest or financing cost, and the agreement expressly states that this loan is subordinate to any other obligations incurred by the Company. Under the agreement, Al-Dabbagh Group has waived any right or claim it has under this agreement.
6.	22,800,000	04/02/1445H (corresponding to 30/08/2023G)	The main Loan Agreement was signed on 04/02/1445H (corresponding to 30/08/2023G) by and between the Company and Al-Dabbagh Group in its capacity as a major shareholder in the Company, with a value of twenty-two million, eight hundred thousand (22,800,000) Saudi Riyals, providing that the amount would be payable on 26/01/1446H (corresponding to 01/08/2024G). It should be noted that the loan is free of any interest or financing cost, and the agreement expressly states that this loan is subordinate to any other obligations incurred by the Company. Under the agreement, Al-Dabbagh Group has waived any right or claim it has under this agreement.

11.4.3.2 Debt Conversion Agreement

The Company has entered into a Debt Conversion Agreement with Al-Dabbagh Group, under which the parties have amended all the aforementioned Loan Agreements by agreement that the Company's obligations to Al-Dabbagh Group as a result of the Loan Agreements can be settled through the issuance of additional shares in the Company to Al-Dabbagh Group. For the purpose of valuing the debt and calculating the number of shares due to Al-Dabbagh Group, the parties have adopted the Conversion Factor used in the context of the Acquisition Agreement. The parties also agreed to amend the maturity date in respect of all the Loan Agreements. The following table shows the details of the relevant Shareholder Loan Agreements:

Table 11.6: Details of the Debt Conversion Agreement and the Related Debts

No.	Creditor	Debtor	Agreement Date	Maturity Date	Amount Due
1	Al-Dabbagh Group	The Company	18/05/1444H (corresponding to 12/12/2022G)	19/07/1445H (corresponding to 31/01/2024G)	45,225,097
2	Al-Dabbagh Group	The Company	24/07/1444H (corresponding to 15/02/2023G)	19/07/1445H (corresponding to 31/01/2024G)	13,230,000
3	Al-Dabbagh Group	The Company	04/02/1445H (corresponding to 30/08/2023G)	19/07/1445H (corresponding to 31/01/2024G)	22,800,000
Total					81,225,097

11.5 Details of Disputes and Lawsuits that Could Materially Affect the Company's Business

The Company and its subsidiaries are party to a number of existing lawsuits and claims within their ordinary course of business. None of those lawsuits and claims (including any existing or potential lawsuits) can materially affect the Company's business, financial position, or subsidiaries.

11.6 Details of Disputes and Lawsuits that Could Materially Affect First Fix's Business

No lawsuit or claim (including any existing or potential claims) can materially affect the business and financial position of First Fix and its subsidiaries.

11.7 Bankruptcy

The Company has not filed any bankruptcy involving any of the Company's Board of Directors members, proposed members, a senior executive, or the Secretary of the Company's Board of Directors.

11.8 Insolvency

The Company has not filed any insolvency in the preceding five years in which any of the Company's Board of Directors members, proposed members, a senior executive, or the Secretary of the Company's Board of Directors was appointed by the insolvent company to an administrative or supervisory position therein.

12. Expert Statements

The Financial Advisor, Legal Advisor, and Auditor named in Section 3 (*Company Guide*) of this Circular have each provided their written approvals for their names, logos, addresses, and statements to be published in the form included in this Circular, and none of the Advisors has withdrawn this approval as of the issuance date of this Circular. We also note that none of the Advisors nor their relatives have any share or interest of any kind in the Company or its subsidiaries.

13. Expenses

The costs and expenses related to the Transaction are estimated at about six million Saudi Riyals (SAR 6,000,000). This includes the fees of the Financial Advisor, Legal Advisor, Auditor, and other advisors, in addition to government agencies' fees to obtain statutory approvals, coordination and advertising expenses, and all other costs related to the Transaction. The Company will bear all costs and expenses related to the Transaction.

14. Exemptions

The Company has not applied to the Capital Market Authority for any exemption.

15. Documents Available for Inspection

Copies of the following documents will be available for inspection at the Company's head office at Al Thumama Road, Al Rabie District, P.O. Box 9371, Riyadh 11413, Kingdom of Saudi Arabia, from Sunday to Thursday, from 9 am to 5 pm, excluding public holidays in the Kingdom of Saudi Arabia, starting on ٢٠٢٢/١٤٤٧H (corresponding to ٢٠٢٢/2025G). The inspection period must not be less than fourteen (14) days from the date of the Extraordinary General Assembly for the Transaction, which is expected to be convened on ٢٠٢٢/١٤٤٧H (corresponding to ٢٠٢٢/2025G).

1. Transaction Agreements and ancillary documents.
2. The Company's audited financial statements for the fiscal years ended on 31 December 2020G, 2021G, and 2022G.
3. The Company's pro forma unaudited summary consolidated financial information for the fiscal period ended on 30 September 2023G.
4. The valuation report.
5. The statement prepared and signed by the Company's Board of Directors and the chartered accountant (who are responsible for its accuracy) on the origin and amount of the Debt subject of the Debt Conversion Transaction.
6. The Advisors' letters of approval to use their names, logos, and statements in this Circular.

16. Appendixes

16.1 Appendix 1: The Company's Financial Statements for the Fiscal Years Ended on 31 December 2020G, 2021G, and 2022G

**RED SEA INTERNATIONAL COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
31 DECEMBER 2020**

Red Sea International Company (A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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**INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
TO SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY
(A SAUDI JOINT STOCK COMPANY)**

1/7

Opinion

We have audited the consolidated financial statements of Red Sea International Company – A Saudi Joint Stock Company (the “Company”) and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statements of profit or loss, comprehensive income, changes in equity and 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 2020, 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 ON THE AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS
TO SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY
(A SAUDI JOINT STOCK COMPANY) (continued)**

2/7

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
RECOGNITION OF EXPECTED CREDIT LOSSES UNDER IFRS 9 AND IMPAIRMENT OF DISPUTED TRADE RECEIVABLES At 31 December 2020, the Group has gross outstanding receivables of SR 344.3 million (2019: SR 376.4 million) related to trade receivables and contract assets. Out of which an outstanding receivable of SR 88.7 million relates to a customer in Angola. At 31 December 2020, an allowance for expected credit losses amounting to SR 84.6 million (2019: SR 83.2 million) is maintained out of which an amount of SR 57.2 million (2019: SR 55.5 million) pertains to the above customer. 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 allowance for expected credit losses and in the preparation of ECL model. Refer to the notes 4, 19 and 20 of the consolidated financial statement for the accounting policy and other related information.	We performed the following procedures to address the key audit matter: - We obtained and tested the expected credit loss (ECL) model prepared by the management; - We Assessed the judgements used by the management to develop loss rates and final ECL allowance using the loss rates; - We also verified the data inputs used in assessing the loss rates; - We evaluated forward-looking information, wherever applicable, that reflects the impact of future events on expected credit losses; - With respect to the 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 allowance for expected credit losses; - We assessed the adequacy of disclosures presented in the consolidated financial statements.



INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
TO SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY
(A SAUDI JOINT STOCK COMPANY) (continued)

3/7

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
IMPAIRMENT OF NON-FINANCIAL ASSETS The Group has significant investment in non-financial assets that are associated with its operations and business units around the world. Based on impairment indicators analysis and subsequent recoverable amount estimate, the Group recorded an impairment loss of SR 8.2 million (2019: SR 4.9 million). 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. Refer to the notes 4, 14 ,15 and 16 of the consolidated financial statement for the accounting policy and other related information.	We performed the following procedures to address the key audit matter: - We obtained management's impairment calculations and key assumptions including revenue forecasts, basis of selection of growth rates and discount rates. - Discussed with the management the process of identifying impairment indicators and results of the assessment. - 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. - 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. - Assessed the qualifications and expertise of the third-party valuers, involved in the valuation of investment properties.



INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS TO SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY) (continued)

4/7

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
ZAKAT POSITION During the year, the General Authority of Zakat and Tax ("GAZT") had issued an assessment for the years 2014 through 2017 amounting to SR 67.1 million for the Company and its wholly owned subsidiaries. The Company filed an appeal against the GAZT assessment for the said period. However, the Group's management believes that the provision made in the consolidated statement of financial position is sufficient to cover any additional zakat liability that may arise for the said assessment. We consider this as a key audit matter as it involves significant management judgement, and zakat provision and the related assessment issued by GAZT are material to the consolidated financial statements. Refer to the notes 4 and 32 of the consolidated financial statement for the accounting policy and other related information.	We performed the following procedures to address the key audit matter: - Reviewed correspondences between the Group and GAZT to determine the amount of the additional assessments made by GAZT. - Gained an understanding of the process management followed to assess the impact of the assessment issued by the GAZT; - Evaluated the zakat opinion of management's expert obtained by the Group on the respective assessment issued by the GAZT; - Evaluated the reasonableness of the assessment for the accounting of the uncertain zakat provision in light of the zakat regulations, recent, recent practices of GAZT and merits of appeals filed with the GAZT against the assessment raised; - Assessed the appropriateness of disclosure made in relation to the assessment issued by GAZT in respect of claiming additional zakat liability.



INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS TO SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY) (continued)

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Other information included in the Group's 2020 Annual Report

Other information consists of the information included in the Group's 2020 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 2020 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 2020 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.

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.



**INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
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 Statement (continued)

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.
- 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.



**INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
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)

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



19 Sha'ban 1442H
1 April 2021

Al Khobar

Red Sea International Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

		2020 SR'000	2019 SR'000 <i>Restated</i> <i>(Note 1.1 & 40)</i>
	<i>Note</i>		
Revenues	7	533,520	606,066
Cost of revenues	8	(561,868)	(565,360)
GROSS (LOSS)/PROFIT		(28,348)	40,706
EXPENSES			
Selling and distribution expenses	9	(29,363)	(32,087)
General and administration expenses	10	(72,606)	(59,608)
Impairment of intangible assets	16	(8,234)	(4,962)
OPERATING LOSS		(138,551)	(55,951)
Share in result of investment in associates	21	(2,454)	-
Other income, net	11	855	4,153
Finance cost	12	(13,662)	(14,700)
Finance income		350	1,688
LOSS BEFORE ZAKAT AND INCOME TAX FROM CONTINUING OPERATIONS		(153,462)	(64,810)
Income tax credit	32	-	958
Zakat	32	(8,664)	(5,500)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(162,126)	(69,352)
DISCONTINUED OPERATIONS			
Profit/(loss) after tax for the year from discontinued operations	1.1	180	(9,609)
LOSS FOR THE YEAR		(161,946)	(78,961)
LOSS ATTRIBUTABLE TO:			
Equity holders of the parent company		(158,323)	(74,851)
Non-controlling interests		(3,623)	(4,110)
		(161,946)	(78,961)
LOSS PER SHARE:			
Basic and diluted losses per share attributable to the shareholders of the parent company	13	(2.64)	(1.25)
LOSS PER SHARE ATTRIBUTABLE TO CONTINUED OPERATIONS:			
Basic and diluted losses per share attributable to the shareholders of the parent company	13	(2.65)	(1.11)

Chairman of the Board

Chief Financial Officer

Chief Executive Officer

The attached notes 1 to 43 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 2020

	Note	2020 SR'000	2019 SR'000 Restated (Note 1.1 & 40)
Loss for the year		(161,946)	(78,961)
Other comprehensive loss			
<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		(1,851)	(4)
Net other comprehensive loss to be reclassified to consolidated statement of profits or loss in subsequent periods		(1,851)	(4)
<i>Other comprehensive income not to be reclassified to the consolidated statement of profit or loss in subsequent periods net of zakat and tax:</i>			
Actuarial losses on defined benefit liabilities	28	(1,394)	(4,370)
Net other comprehensive loss not to be reclassified to consolidated statement of profit or loss in subsequent periods		(1,394)	(4,370)
Other comprehensive loss for the year		(3,245)	(4,374)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(165,191)	(83,335)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Equity holders of the parent company		(161,587)	(78,839)
Non-controlling interests		(3,604)	(4,496)
		(165,191)	(83,335)

		
Chairman of the Board	Chief Financial Officer	Chief Executive Officer

The attached notes 1 to 43 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 2020

		31 December 2020	31 December 2019	1 January 2019
	<i>Note</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
			<i>Restated (Note 40)</i>	<i>Restated (Note 40)</i>
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	14	90,980	108,033	128,796
Investment properties	15	356,267	377,561	399,322
Intangible assets	16	4,230	14,508	41,041
Right-of-use assets	17	58,009	68,534	-
Trade receivables	20	31,495	33,187	49,724
Investment in an associate	21	10,146	12,863	-
Long-term prepayments	22	-	-	4,723
TOTAL NON-CURRENT ASSETS		551,127	614,686	623,606
CURRENT ASSETS				
Inventories	18	123,117	91,625	122,351
Contract assets	19	43,764	44,294	21,877
Trade receivables	20	184,488	215,774	225,261
Advances to suppliers		48,098	24,176	12,105
Prepayments and other receivables	22	58,905	55,132	39,929
Cash and cash equivalents	23	31,594	107,079	86,656
TOTAL CURRENT ASSETS		489,966	538,080	508,179
TOTAL ASSETS		1,041,093	1,152,766	1,131,785
EQUITY AND LIABILITIES				
EQUITY				
Share capital	24	600,000	600,000	600,000
Statutory reserve	25	-	129,260	129,260
Accumulated losses		(146,217)	(115,741)	(36,917)
Foreign currency translation reserve		(12,087)	(10,511)	(5,849)
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY		441,696	603,008	686,494
NON-CONTROLLING INTERESTS	26	(20,870)	(17,266)	(19,272)
TOTAL EQUITY		420,826	585,742	667,222
NON-CURRENT LIABILITIES				
Interest bearing loans and borrowings	27	36,608	43,939	85,418
Employees' defined benefit liabilities	28	32,997	34,495	38,025
Other non-current liabilities	29	25,075	17,318	16,657
Non-current portion of lease liabilities	17	43,509	52,045	-
TOTAL NON-CURRENT LIABILITIES		138,189	147,797	140,100



 Chairman of the Board



 Chief Financial Officer



 Chief Executive Officer

The attached notes 1 to 43 form part of these consolidated financial statements.

Red Sea International Company (A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
As at 31 December 2020

		31 December 2020	31 December 2019	1 January 2019
	<i>Note</i>	SR'000	SR'000	SR'000
			<i>Restated (Note 40)</i>	<i>Restated (Note 40)</i>
CURRENT LIABILITIES				
Trade payables	30	138,160	79,054	61,036
Accruals and other current liabilities	31	178,694	112,089	78,335
Short-term interest bearing loans and borrowings	27	79,273	120,922	90,500
Current portion of interest bearing loans and borrowings	27	26,365	42,691	48,805
Current portion of lease liabilities	17	13,014	9,181	-
Advances from customers		22,603	32,314	19,258
Zakat and income tax payable	32	23,969	22,976	26,529
TOTAL CURRENT LIABILITIES		482,078	419,227	324,463
TOTAL LIABILITIES		620,267	567,024	464,563
TOTAL EQUITY AND LIABILITIES		1,041,093	1,152,766	1,131,785


Chairman of the Board


Chief Financial Officer


Chief Executive Officer

The attached notes 1 to 43 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 2020

	Attributed to shareholders of the parent Company					Non-controlling interests Restated (Note 40)	Total equity Restated (Note 40)
	Share capital	Statutory reserve	Accumulated losses Restated (Note 40)	Foreign currency translation reserve	Total		
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
Balance at 1 January 2019	600,000	129,260	(12,129)	(5,849)	711,282	(13,458)	697,824
Adjustment for correction of an error (note 40)	-	-	(24,788)	-	(24,788)	(5,814)	(30,602)
As at 1 January 2019 - restated (note 40)	600,000	129,260	(36,917)	(5,849)	686,494	(19,272)	667,222
Loss for the year	-	-	(74,851)	-	(74,851)	(4,110)	(78,961)
Other comprehensive loss	-	-	(3,973)	(15)	(3,988)	(386)	(4,374)
Total comprehensive loss	-	-	(78,824)	(15)	(78,839)	(4,496)	(83,335)
Disposal of a subsidiary (note 1)	-	-	-	(4,647)	(4,647)	6,502	1,855
Balance at 31 December 2019 - restated (note 40)	600,000	129,260	(115,741)	(10,511)	603,008	(17,266)	585,742
Loss for the year	-	-	(158,323)	-	(158,323)	(3,623)	(161,946)
Other comprehensive loss	-	-	(1,413)	(1,851)	(3,264)	19	(3,245)
Total comprehensive loss	-	-	(159,736)	(1,851)	(161,587)	(3,604)	(165,191)
Disposal of a subsidiary (note 1)	-	-	-	275	275	-	275
Transfer to accumulated losses (note 25)	-	(129,260)	129,260	-	-	-	-
Balance at 31 December 2020	600,000	-	(146,217)	(12,087)	441,696	(20,870)	420,826



 Chairman of the Board



 Chief Financial Officer



 Chief Executive Officer

The attached notes 1 to 43 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 2020

	Note	2020 SR'000	2019 SR'000 Restated (Note 40)
OPERATING ACTIVITIES			
Loss before zakat and income tax from continuing operations		(153,462)	(64,810)
Loss before zakat and income tax from discontinued operations	1.1	180	(9,609)
Loss before zakat and income tax		(153,282)	(74,419)
Adjustments to reconcile loss before zakat and income tax to net cash flows:			
Depreciation of property, plant and equipment	14	13,197	18,672
Depreciation of investment properties	15	53,029	58,968
Amortisation of intangible assets	16	2,860	4,525
Depreciation of right-of-use assets	17	10,621	12,205
Impairment of intangible assets	16	8,234	4,962
Share in results of investment in associate	21	2,454	-
Provision for employees' defined benefit liabilities	28	5,108	4,006
Finance costs	12	13,662	14,700
Loss on disposals of property, plant and equipment		16	95
Intangible assets written off	16	8	-
Remeasurement loss on right-of-use asset and lease liabilities		(4)	-
Gain on disposal of a subsidiary	1.1	(180)	274
		(44,277)	43,988
Working capital adjustments:			
Inventories		(26,053)	21,938
Contract assets		530	(22,417)
Trade receivables - current		31,286	9,551
Advances to suppliers		(23,922)	(12,071)
Prepayment and other receivables		23,821	5,057
Trade receivables - non current		-	831
Long-term prepayments		-	518
Trade payables		59,106	19,955
Accruals and other current liabilities		60,490	33,901
Other non-current liabilities		7,757	661
Advances from customers		(9,711)	13,056
Cash from operations		79,027	114,968
Financial charges paid		(8,261)	(10,255)
Zakat and income tax paid	32	(6,781)	(8,859)
Employees' defined benefits paid	28	(8,000)	(11,906)
Net cash from operating activities		55,985	83,948
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	14	(4,165)	(3,938)
Purchase of investment properties	15	(41,257)	(24,849)
Purchase of intangible assets	16	(849)	(2,919)
Proceeds from the sale of property, plant and equipment		43	650
Proceeds from the sale of investment properties		415	-
Net cash used in investing activities		(45,813)	(31,056)
 Chairman of the Board			
 Chief Financial Officer			
 Chief Executive Officer			

The attached notes 1 to 43 form part of these consolidated financial statements.

Red Sea International Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2020

		2020 SR'000	2019 SR'000 Restated (Note 40)
	Note		
FINANCING ACTIVITIES			
Proceeds from the interest bearing loans and borrowings		96,348	130,881
Repayment of interest bearing loans and borrowings		(161,654)	(148,052)
Payments of lease liabilities		(7,784)	(13,658)
Net cash used in financing activities		(73,090)	(30,829)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(62,918)	22,063
Cash and cash equivalents at the beginning of the year		107,079	86,656
Cash and cash equivalents disposed off related to a subsidiary		(9,954)	(1,355)
Foreign exchange differences, net		(2,613)	(285)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		31,594	107,079
<u>SIGNIFICANT NON-CASH TRANSACTIONS:</u>			
Remeasurement gains on employees' defined benefit liabilities	28	1,394	4,370
Disposal of a subsidiary's assets		18,570	23,595
Investment in an associate		-	12,863
Foreign currency translation reserve relating disposal of a subsidiary		275	(4,647)
Reversal of non-controlling interest		-	6,502
Consideration receivable, net		-	9,277
Financial charges on leases liabilities		3,042	3,104
Assets re-recognised from Joint operations		7,878	-
Assets transferred out to Joint operations		8,200	-


Chairman of the Board


Chief Financial Officer


Chief Executive Officer

The attached notes 1 to 43 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 2020

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 International Company	1010566349	Riyadh
Red Sea Housing Services Company	4030263716	Jeddah

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 and an associate included in the Group:

	<i>Country of incorporation</i>	<i>Effective ownership percentage</i>	
		2020	2019
<u>Subsidiaries</u>			
Red Sea Housing Services (Ghana) Limited ("RSG")	Ghana	100%	100%
SARL Red Sea Housing Services Algeria Limited ("RSA")	Algeria	98%	98%
Red Sea Housing Services Company Dubai FZE ("RSD")	UAE	100%	100%
Red Sea Building Materials and Equipments Trading Company ("RSBM")	Saudi Arabia	100%	100%
Premier Paints Company ("PPC")	Saudi Arabia	81%	81%
Red Sea Housing Services (Mozambique), LDA ("RSM")	Mozambique	100%	100%
Red Sea Housing Services LLC ("RSO")	Oman	100%	100%
Red Sea Housing Malaysia Services Sdn. Bhd ("RSHSM")	Malaysia	100%	100%
Red Sea Modular Rentals LLC ("RSMR")	UAE	100%	100%
Red Sea Construction LLC ("RSC")	UAE	100%	100%
Red Sea Modular Rentals (Kuwait) WLL ("RSMK")	Kuwait	100%	100%
<u>Associates</u>			
Red Sea Housing Malaysia Sdn. Bhd. ("RSHM") (note 1.1)	Malaysia	49%	49%
Red Sea Housing Company PNG Limited ("RSHP") (note 1.1)	Papua New Guinea	-	100%
<u>Joint Operations</u>			
Red Sea Hanchi ("RSHC")	Algeria	49%	-

In addition to the above, the Group owns other subsidiaries, registered in Nigeria, Libya, Saudi Arabia, Singapore and also has licenses to operate branches in Papua New Guinea and Abu Dhabi which are consolidated in these consolidated financial statements. These other subsidiaries and branches are either in early stages of operations or have not commenced any commercial operations at the reporting date.

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.

During the year ended 31 December 2020, the Group finalised joint arrangement in Algeria with a third party and formed a joint operations 'Red Sea Hanchi' ("RSHC"). The Joint arrangement is engaged in housing services, rental of properties and catering services. Management of the Group has used judgment in relation to the classification of RSHC and classified it as a joint operation. The joint operations are owned 49% by the Group but controlled jointly with the other owner. The Joint arrangement has been classified as a joint operation because the partners have equal number of board representatives and because relevant activities that significantly affect the return on the investment requires approval of representatives from both partners.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

1 CORPORATE INFORMATION (continued)

The consolidated financial statements of the Group for the year ended 31 December 2020 were authorised for issuance in accordance with the Board of Directors resolution dated 31 March 2021 (18 Sha'ban 1442).

1.1 Sales of shares in subsidiaries and discontinued operations

(a) Sale of share in RSHM

On 31 December 2019, the Group acquired 10% equity interest in Red Sea Housing Malaysia Sdn. Bhd. ("RSHM") from minority shareholder for SR 56 thousand. Subsequently, on the same date, the Group sold 51% equity interest in RSHM to a third party for a consideration of SR 13.38 million.

	<i>SR'000</i>
Total sale consideration	13,388
Carrying value of equity interest disposed off, net of bargain purchase	(13,662)
Loss on disposal	(274)

The carrying value of the net assets disposed off includes gain on bargain purchase amounting to SR 12.78 million resulting on account of the differential of carrying value and fair value of net assets retained in RSHM.

The equity interest retained in RSHM (49%) have been classified as "investment in an associates", effective from the date when group loses the control, and accounted for in accordance with IAS 28 ("Investment in associates"). The investment in associates were recorded at the provisional values of the identifiable assets and liabilities, at the transaction date. The management has performed purchase price allocation with no material change in the value of associate.

(b) Sale of shares in RSHP

During the year, the Group disposed off its interest in Red Sea Housing Company PNG Limited ("RSHP") to a third party, the disposal occurred in two stages. At 1 January 2020, the Group disposed off its 80% of equity interest for a consideration of SR 15 million and remaining 20% equity interest was sold on 31 December 2020 for a consideration of SR 3.75 million. As a result, the equity interest in RSHP reduced to nil (2019: 100%).

	<i>SR'000</i>
Total sale consideration	15,000
Carrying value of equity interest disposed off, net of bargain purchase	(14,820)
Gain on disposal	180

The Group has derecognised the assets and liabilities of RSHM and RSHP and de-consolidated from the consolidated financial position of the Group at 31 December 2019 and 31 December 2020, respectively.

In accordance with IFRS 5, the disposal of RSHM and RSHP are classified as a discontinued operation. The results of RSHM and RSHP until the date of disposal are presented below:

	<i>2020</i>	<i>2019</i>
	<i>SR'000</i>	<i>SR'000</i>
Revenue	-	32,720
Expenses	-	(42,055)
Net income for the year from discontinued operations	-	(9,335)
Loss on disposal of discontinued operations	180	(274)
Net loss from discontinued operations	180	(9,609)
<i>Attributable to:</i>		
Equity holders of the Parent Company	180	(8,347)
Non controlling interest	-	(1,262)
	180	(9,609)

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

1 CORPORATE INFORMATION (continued)

1.1 Sales of shares in subsidiaries and discontinued operations (continued)

	2020 SR'000	2019 SR'000
Loss for the year from discontinued	180	(8,347)
Weighted average number of outstanding shares during the year (share '000)	60,000	60,000
Basic and diluted losses per share attributable to the shareholders of the parent company	0.01	(0.14)
The net cash flows incurred by the discontinued operation are as follows:		
	2020 SR'000	2019 SR'000
Operating	-	(7,225)
Investing	-	(2,188)
Financing	-	11,070
	-	1,657

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 2020. 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 investee)
- 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

2 BASIS OF PREPARATION (continued)

2.1 Basis of consolidation (continued)

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.

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 (note 38)
- Financial risk management objectives and policies (note 37)
- Sensitivity analyses disclosures (note 28 & 37)

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.1 Significant judgements (continued)

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

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.

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.

Joint Operations

Judgement is required to determine when the Group has joint control, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements relate to the operating and capital decisions of the arrangement, such as: the approval the capital expenditure programme for each year, and appointing, remunerating and terminating the key management personnel of, or service providers to, the joint arrangement. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. Judgement is also required to classify a joint arrangement as either a joint operation or joint venture. Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement. Specifically, it considers:

- The structure of the joint arrangement – whether it is structured through a separate vehicle
- When the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:
 - The legal form of the separate vehicle
 - The terms of the contractual arrangement
 - Other facts and circumstances (when relevant)

This assessment often requires significant judgement, and a different conclusion on joint control and also whether the arrangement is a JO or a JV, may materially impact the accounting.

Based on the Group's control assessment, investments held in RSHC is classified as joint operations. Based on management's judgement, the contractual arrangement establishes that the parties to the joint arrangement share their interests in all assets relating to the arrangement.

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.2 *Estimations and assumptions (continued)*

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, 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 37.

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.

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 28.

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 29.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.2 Estimations and assumptions (continued)

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

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the last year, except for the adoption of new standards effective as of 1 January 2020 as disclosed in Note 5. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

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.

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 re-assesses 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Investments in associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence is similar to those necessary to determine control over subsidiaries. The Group's investments in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate is eliminated to the extent of the interest in the associate. The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of profit or loss outside operating profit and represents profit or loss after tax and noncontrolling interests in the associate.

The financial statements of the associate is prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share of profit of an associate' in the consolidated statement of profit or loss. Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of profit or loss.

4.3 Interest in joint arrangements

A joint arrangement is an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control over an arrangement which exists only when the decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control. The Group's joint arrangement is as follows:

Joint operations Red Sea Hanchi ("RSHC")

A joint operation (JO) is a type of joint arrangement in which the parties with joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. In relation to its interests in RSHC, the financial statements of the Group includes:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

All such amounts are measured in accordance with the terms of each arrangement which are in proportion to the Group's interest that is 49% in each asset and liability, income and expense of the RSHC.

4.4 Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Non-current assets held for sale and discontinued operations (continued)

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area
- Is a subsidiary acquired exclusively with a view to resale

In the consolidated profit or loss of the reporting period, and of the comparable period of the previous year income and expenses from discontinued operations are reported separate from income and expenses from continuing activities, down to the level of profit, even when the Group retains a non controlling interest in the subsidiary after the sale. The resulting profit or loss is reported separately in the consolidated statement of profit or loss.

Additional disclosures are provided in Note 1. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

4.5 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 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.

4.6 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.

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Fair value measurement (continued)

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.

4.7 Revenue recognition

Revenue from contracts with customers

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 Group 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 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

b) 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.

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Revenue recognition (continued)

Revenue from contracts with customers (continued)

(c) 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.

Rental revenue from investment properties

a) 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.

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.

4.8 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 Group 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 profit or loss 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.

4.9 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9 Investment properties (continued)

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 statement of profit or loss. 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 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.

4.10 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 profit or loss 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 profit or loss 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

4.11 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 transit	- 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12 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.

4.13 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).

4.14 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.

4.15 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.

4.16 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.

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.16 Provisions (continued)

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.

4.17 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.

4.18 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.

4.19 Zakat and taxes

Zakat and income tax

Zakat is provided for the Company and for subsidiaries operating 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 profit or loss. 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 profit or loss.

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.

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.19 Zakat and taxes (continued)

Deferred tax (continued)

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.

4.20 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 Group Chief Executive Officer, who assesses the financial performance and position of the Group, and makes strategic decisions. Group Chief Executive Officer has been identified as being the Group 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.

4.21 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.

4.22 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.22 Leases (continued)

Group as a lessee

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Land	2 - 39 years
Equipments	4 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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 lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.23 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 profit or loss 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 consolidated statement of profit or loss 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 profit or loss.

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 profit or loss, 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 profit or loss 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 profit or loss.

4.24 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 Group incurs in connection with the borrowing of funds.

4.25 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 profit or loss. 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.25 Employee benefit obligations (continued)

Defined benefit plans (continued)

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

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

4.26 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.

4.27 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.

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial assets (continued)

Impairment of financial assets (continued)

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.

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.

4.28 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.

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At 31 December 2020

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.28 Impairment of non financial assets (continued)

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.

4.29 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 30% of the share capital. The reserve is not available for distribution.

5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Group, but may impact future periods should the Group enter into any business combinations

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Group as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Group

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5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Group.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the financial statements of the Group.

6 STANDARDS ISSUED BUT NOT EFFECTIVE

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

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

Red Sea International Company (A Saudi Joint Stock Company)

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6 STANDARDS ISSUED BUT NOT EFFECTIVE (continued)

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administration costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

7 REVENUES

	2020 SR'000	2019 SR'000 <i>Restated</i> <i>(Note 1.1 & 40)</i>
<i>Revenue from the contract with customers</i>		
Revenue from sale of buildings	319,405	352,234
Sale of paint and paint related products and services	24,476	42,147
	343,881	394,381
<i>Other revenue</i>		
Rental revenue from investment properties	189,639	211,685
	533,520	606,066

8 COST OF REVENUES

	2020 SR'000	2019 SR'000 <i>Restated</i> <i>(Note 1.1 & 40)</i>
Direct cost	352,405	337,621
Employee salaries and benefits	87,603	92,090
Depreciation and amortisation	74,601	82,199
Others	47,259	53,450
	561,868	565,360

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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9 SELLING AND DISTRIBUTION EXPENSES

	2020 SR'000	2019 SR'000 <i>Restated</i> <i>(Note 1.1 & 40)</i>
Employee salaries and benefits	23,780	24,482
Visa and license expenses	1,003	871
Depreciation and amortization	956	1,065
Travelling	674	1,598
Rent	412	679
Marketing fees	350	692
Others	2,188	2,700
	29,363	32,087

10 GENERAL AND ADMINISTRATION EXPENSES

	2020 SR'000	2019 SR'000 <i>Restated</i> <i>(Note 1.1 & 40)</i>
Employee salaries and benefits	37,947	38,068
Professional fees	15,368	4,435
Depreciation and amortization	4,150	5,466
Insurance	1,435	1,391
Utilities	1,268	926
Travelling	1,165	2,379
Allowance for expected credit losses, net	715	1,836
Rent	624	705
Others	9,934	4,402
	72,606	59,608

11 OTHER INCOME, NET

	2020 SR'000	2019 SR'000 <i>(Note 1.1 & 40)</i>
Scrap sales	867	457
Net foreign currency exchange losses	(1,299)	(1,499)
Net losses on disposal of property, plant and equipment and investment properties	(212)	(46)
Others, net	1,499	5,241
	855	4,153

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

12 FINANCE COST

	2020 SR'000	2019 SR'000 (Note 1.1 & 40)
Conventional borrowings	4,040	5,678
Interest expense on lease liabilities (note 17)	3,042	2,873
Non-conventional borrowings	2,567	2,310
Discounting for non-current receivables	1,692	832
Bank charges and other costs	1,654	2,346
Unwinding of discount for provision for decommissioning (note 29)	667	661
	13,662	14,700

13 LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the 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:

	2020 SR'000	2019 SR'000 (Note 1.1 & 40)
Loss for the year attributable to the shareholders of the parent Company	(158,323)	(74,851)
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	(2.64)	(1.25)
Loss for the year from continued operations attributable to the shareholders of the parent Company	(158,503)	(66,504)
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	(2.65)	(1.11)

Red Sea International Company (A Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

14 PROPERTY, PLANT AND EQUIPMENT

	<i>Buildings and residential houses (note 14.1)</i>	<i>Machinery and equipment SR '000</i>	<i>Furniture, fixtures and office equipment SR '000</i>	<i>Vehicles SR '000</i>	<i>Capital work- in-progress SR '000</i>	<i>Total SR '000</i>
	<i>Restated (Note 40)</i>	<i>Restated (Note 40)</i>				<i>Restated (Note 40)</i>
<i>Cost:</i>						
At 1 January 2019 - restated (note 40)	2,250	175,816	78,877	27,104	44,584	43,329
Additions - restated (note 40)	-	836	564	1,532	900	3,938
Disposals	-	(1,342)	(932)	(2,167)	(1,287)	(5,728)
Transfers	-	201	-	132	-	(333)
Transfer from/(to) investment properties (note 15)	-	399	-	(2)	-	397
Transfer to inventories	-	(2,767)	-	-	-	(2,767)
Transfer on disposal of a subsidiary	-	(683)	(3,344)	(935)	(2,080)	(7,058)
Foreign currency translation	-	230	119	63	337	585
At 31 December 2019 - restated (note 40)	2,250	172,690	75,284	25,727	42,454	42,922
<i>Accumulated depreciation and impairment:</i>						
At 1 January 2019 - restated (note 40)	-	91,187	59,459	18,573	31,974	41,971
Charge for the year - restated (note 40)	-	8,689	4,553	2,912	2,518	18,672
Disposals	-	(736)	(907)	(2,149)	(1,191)	(4,983)
Transfers	-	(2)	(45)	47	-	-
Transfer to investment properties (note 15)	-	23	-	-	-	23
Transfer to inventories	-	(482)	-	-	-	(482)
Transfer on disposal of a subsidiary	-	(315)	(1,557)	(616)	(942)	(3,430)
Foreign currency translation	-	133	98	59	112	330
At 31 December 2019 - restated (note 40)	-	98,497	61,601	18,826	32,471	41,899
<i>Net book amounts:</i>						
At 31 December 2019 - restated (note 40)	2,250	74,193	13,683	6,901	9,983	1,023
						108,033

Red Sea International Company (A Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

14 PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land SR '000	Buildings and residential houses SR '000	Machinery and equipment SR '000	Furniture, fixtures and office equipment SR '000	Vehicles SR '000	Capital work- in-progress (Note 14.2) SR '000	Total SR '000
<i>Cost:</i>							
At 1 January 2020 - restated (note 40)	2,250	172,690	75,284	25,727	42,454	42,922	361,327
Additions	-	2,540	988	630	7	-	4,165
Disposals	-	-	(808)	(2,202)	(705)	-	(3,715)
Transfer to inventories	-	(203)	-	-	-	-	(203)
Transfer on disposal of a subsidiary	-	(9,487)	(4,204)	(2,663)	(14,862)	-	(31,216)
Foreign currency translation	-	(1,071)	512	(23)	129	(841)	(1,294)
At 31 December 2020	2,250	164,469	71,772	21,469	27,023	42,081	329,064
<i>Accumulated depreciation and impairment:</i>							
At 1 January 2020 - restated (note 40)	-	98,497	61,601	18,826	32,471	41,899	253,294
Charge for the year	-	5,805	3,561	2,504	1,327	-	13,197
Disposals	-	-	(961)	(2,046)	(649)	-	(3,656)
Transfer to inventories	-	(56)	-	-	-	-	(56)
Transfer on disposal of a subsidiary	-	(6,289)	(4,007)	(2,623)	(11,507)	-	(24,426)
Foreign currency translation	-	(249)	-	(12)	(8)	-	(269)
At 31 December 2020	-	97,708	60,194	16,649	21,634	41,899	238,084
<i>Net book amounts:</i>							
At 31 December 2020	2,250	66,761	11,578	4,820	5,389	182	90,980

14.1 The Group production facilities are located on plots of land leased under various lease arrangements (note 17)

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 42 million (2019: SR 42 million)

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

14 PROPERTY, PLANT AND EQUIPMENT (continued)

14.3 Depreciation for the years has been allocated as follows:

	2020 SR'000	2019 SR'000 <i>Restated</i> (Note 1.1 & 40)
Cost of revenue	11,140	16,119
General and administration expenses	1,497	1,769
Selling and distribution expenses	560	784
	13,197	18,672

15 INVESTMENT PROPERTIES

	Freehold land SR '000	Buildings and residential houses SR '000	Capital work-in- progress SR '000	Total SR '000
<i>Cost:</i>				
At 1 January 2019	4,228	918,768	9,561	932,557
Additions	-	1,787	23,062	24,849
Disposals	-	(125)	-	(125)
Transfers	-	14,638	(14,638)	-
Transfer from inventories	-	-	17,624	17,624
Transfer to inventories	-	(12,487)	-	(12,487)
Transfer from property, plant and equipment (note 14)	-	-	2	2
Transfer to property, plant and equipment (note 14)	-	(399)	-	(399)
Foreign currency translation	-	37	-	37
At 31 December 2019	4,228	922,219	35,611	962,058
Additions	-	14,555	34,580	49,135
Disposal	-	(114)	(403)	(517)
Transfer to joint operations	-	(45,976)	-	(45,976)
Transfers	-	26,422	(26,422)	-
Transfer on disposal of a subsidiary	-	(1,651)	-	(1,651)
Foreign currency translation	-	2	-	2
At 31 December 2020	4,228	915,457	43,366	963,051
<i>Accumulated depreciation and impairment:</i>				
At 1 January 2019	-	533,235	-	533,235
Charge for the year	-	58,968	-	58,968
Disposal	-	(125)	-	(125)
Transfer to property, plant and equipment	-	(23)	-	(23)
Transfer to inventories	-	(7,571)	-	(7,571)
Foreign currency translation	-	13	-	13
At 31 December 2019	-	584,497	-	584,497
Charge for the year	-	53,029	-	53,029
Disposal	-	(102)	-	(102)
Transfer to joint operations	-	(29,898)	-	(29,898)
Transfer on disposal of a subsidiary	-	(742)	-	(742)
At 31 December 2020	-	606,784	-	606,784
<i>Net book amounts:</i>				
At 31 December 2020	4,228	308,673	43,366	356,267
At 31 December 2019	4,228	337,722	35,611	377,561

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

15 INVESTMENT PROPERTIES (continued)

- 15.1 Direct operating expenses in respect of investment properties generating rental income for the year amounts to SR 62.02 million (2019: SR 58.01 million).
- 15.2 During the year, the Group finalised joint arrangement in Algeria with a third party and transferred investment properties with a carrying value of SR 16 million. The Group re-recognised the investment properties transferred to the joint operations based on the % of ownership. At the reporting date, balance of investment properties includes SR 7.8 million related to joint operation.
- 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>SR '000</u>
2020			
KSA	Land Sterling Property Consultants	Registered valuers with Saudi Authority for Accredited Valuers	394,115
Dubai	Land Sterling Property Consultants	(Taqeem Saudi Arabia) and	2,809
Oman	Land Sterling Property Consultants	Member of Royal Institute of	1,570
Algeria	Land Sterling Property Consultants	Chartered Surveyors	10,037
			408,531
2019			
KSA	Land Sterling Property Consultants	Registered valuers with Saudi Authority for Accredited Valuers	416,960
Dubai	Land Sterling Property Consultants	(Taqeem Saudi Arabia) and	3,654
Oman	Land Sterling Property Consultants	Member of Royal Institute of	1,705
Algeria	Land Sterling Property Consultants	Chartered Surveyors	21,840
PNG	Century 21 Siule Real Estate Company (Mark Joseph Kelep)	Certified Valuer (Papua New Guinea Valuers Registration Board)	1,563
			445,722

- 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 neighbourhood, except for the properties at Dubai which were valued using cost approach - depreciated replacement cost method (DRC). 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. DRC is based on an estimate of the current gross replacement costs of improvements less allowance for physical deterioration and all relevant forms of obsolescence's and optimisation. 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>SR '000</i>	<i>Level 2</i> <i>SR '000</i>	<i>Level 3</i> <i>SR '000</i>	<i>Total</i> <i>SR '000</i>
2020	-	-	408,531	408,531
2019	-	-	445,722	445,722

- 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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16 INTANGIBLE ASSETS

	<i>Licenses</i> <i>SR'000</i>	<i>Goodwill</i> <i>SR'000</i>	<i>Computer</i> <i>software</i> <i>SR'000</i>	<i>Total</i> <i>SR'000</i>
<i>Cost:</i>				
At 1 January 2019	50,307	6,416	6,785	63,508
Additions	-	-	2,919	2,919
Disposal	-	-	(20)	(20)
Transfer on disposal of a subsidiary	(26,478)	-	(304)	(26,782)
Foreign currency translation differences	-	-	9	9
At 31 December 2019	23,829	6,416	9,389	39,634
Additions	-	-	849	849
Disposal	-	-	(128)	(128)
Transfer on disposal of a subsidiary	-	-	(305)	(305)
At 31 December 2020	23,829	6,416	9,805	40,050
<i>Accumulated amortisation and impairment:</i>				
At 1 January 2019	17,533	-	4,934	22,467
Charge for the year	3,935	-	590	4,525
Disposal	-	-	(20)	(20)
Impairment (note 16.1)	-	4,962	-	4,962
Transfer on disposal of a subsidiary	(6,620)	-	(195)	(6,815)
Foreign currency translation differences	-	-	7	7
At 31 December 2019	14,848	4,962	5,316	25,126
Charge for the year	2,150	-	710	2,860
Disposal	-	-	(120)	(120)
Impairment (note 16.1)	6,831	1,403	-	8,234
Transfer on disposal of a subsidiary	-	-	(280)	(280)
At 31 December 2020	23,829	6,365	5,626	35,820
<i>Net carrying value</i>				
At 31 December 2020	-	51	4,179	4,230
At 31 December 2019	8,981	1,454	4,073	14,508

16.1 Impairment test for CGU containing licenses and goodwill

Majority of the 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 2021 and assuming an average annual growth rate of 5% for the next five years and thereafter, the growth rate estimated to be the current short-term growth rate for the paint industry. As a result of this exercise, the management has recorded an impairment of SR 1.4 million related to goodwill and SR 6.8 million related to Licenses in the consolidated statement of profit or loss.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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17 LEASES

17.1 Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period

	<i>Land</i> <i>SR'000</i>	<i>Equipment</i> <i>SR'000</i>	<i>Total</i> <i>SR'000</i>
<i>Cost:</i>			
Amount recognised as of 1 January 2019 due to adoption of IFRS 16	65,728	144	65,872
Additions	16,060	-	16,060
Transfer on disposal of a subsidiary	(2,983)	-	(2,983)
At 31 December 2019	78,805	144	78,949
Additions	2,098	-	2,098
Remeasurement	(14)	-	(14)
Transfer on disposal of a subsidiary	(2,600)	-	(2,600)
At 31 December 2020	78,289	144	78,433
<i>Accumulated amortisation:</i>			
Depreciation expense	12,169	36	12,205
Transfer on disposal of a subsidiary	(1,790)	-	(1,790)
At 31 December 2019	10,379	36	10,415
Depreciation expense	10,585	36	10,621
Transfer on disposal of a subsidiary	(612)	-	(612)
At 31 December 2020	20,352	72	20,424
<i>Net carrying value</i>			
At 31 December 2020	57,937	72	58,009
At 31 December 2019	68,426	108	68,534

17.2 Set out below are the carrying amounts of lease liabilities and the movements during the period:

	<i>Lease liabilities</i>	
	<i>SR'000</i> <i>2020</i>	<i>SR'000</i> <i>2019</i>
At 1 January	61,226	56,944
Additions to lease liabilities	2,098	16,060
Interest expense (note 12)	3,042	3,104
Remeasurement	(18)	-
Transfer on disposal of subsidiary	(2,041)	(1,224)
Payments	(7,784)	(13,658)
At 31 December	56,523	61,226
Current portion of lease liabilities	13,014	9,181
Non-current portion of lease liabilities	43,509	52,045

Maturity analysis of lease liabilities have been disclosed in the note 37 of these consolidated financial statements.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

17 LEASES (continued)

17.3 The following are the amounts recognised related to the right-of-use assets and lease liabilities in the consolidated statement of profit or loss:

	2020 SR'000	2019 SR'000
Depreciation expense of right-of-use assets	10,621	12,205
Interest expense on lease liabilities	3,042	3,105
Expense relating to short-term leases and low value assets	9,654	9,148
	23,317	24,458

18 INVENTORIES

	2020 SR'000	2019 SR'000
Raw materials	55,026	55,267
Finished goods	52,195	56,021
Work in progress	50,989	13,839
	158,210	125,127
Less: provision for obsolete inventory	(35,093)	(33,502)
	123,117	91,625

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

	2020 SR'000	2019 SR'000
At the beginning of the year	33,502	33,222
Provision for the year	4,091	6,018
Write-off during the year	-	(31)
Reversal during the year	(49)	(4,670)
Transfer on disposal of a subsidiary	(2,451)	(999)
Exchange differences	-	(38)
	35,093	33,502

At the balance sheet date, the Group re-assessed the realisable value of inventories and as a result recorded an additional provision of SR 4 million (2019: SR 1.3 million) in the consolidated statement of profit or loss by taking into consideration the age and condition of these inventories.

19 CONTRACT ASSETS

	2020 SR'000	2019 SR'000
Cost and estimated earnings	248,286	267,459
Less: billings and recognised losses	(204,522)	(223,165)
	43,764	44,294

The contract assets increased in the current year due to the additional contracts with customers for the construction of camps. Expected credit losses against contract assets maintained to SR 2.1 million maintained at year end was recognised during the last year (2019: 2.1 million).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

20 TRADE RECEIVABLES

	2020			2019		
	<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>
	SR'000			SR'000		
				<i>Restated (Note 40)</i>		<i>Restated (Note 40)</i>
Billed	210,190	61,228	271,418	232,648	73,785	306,433
Retentions receivable	27,003	51	27,054	22,540	1,046	23,586
Allowance for expected credit losses	(78,731)	(3,758)	(82,489)	(78,119)	(2,939)	(81,058)
	158,462	57,521	215,983	177,069	71,892	248,961
Less: current portion	(126,967)	(57,521)	(184,488)	(143,882)	(71,892)	(215,774)
Non current portion (note 20.1)	31,495	-	31,495	33,187	-	33,187

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 allowance for expected credit losses are as follows:

	2020 SR'000	2019 SR'000
At the beginning of the year	81,058	80,434
Provision for the year	5,786	2,266
Reversal during the year	(3,379)	(545)
Write-off during the year	(502)	(1,468)
Exchange differences	(474)	371
At the end of the year	82,489	81,058

20.1 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. However, following extended discussions and negotiations between the customer and Group, the customer agreed to execute legal documentation acknowledging the debt and giving the Company a claim over the assets of the customer's camp in Angola, which would allow the Company the right to take a secondary charge over these assets. Accordingly, the Group and customer subsequently withdraw from litigation proceedings in Houston, Texas, USA and filed its claim against the customer's camp and related assets with the relevant court in Angola and will proceed with next steps in accordance with local Angolan laws. At the balance sheet date, the decision on lawsuit is still pending.

Total outstanding balance from this customer included in the non-current portion amounted to SR 86.9 million as of 31 December 2020 (2019: SR 88.7 million). During the year, the balance has been further discounted by SR 1.7 million in consideration of time value of money. In the light of the above pending litigation and related outcome, the management of the Group has recorded a allowance against this balance amounting to SR 57.2 million (2019: SR 55.5 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.

20.2 The Group had a receivable balance of SR 12.8 million from Papua New Guinea Government outstanding from several years, which have been collected in full during the current year.

20.3 Refer to note 37.2 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

21 INVESTMENT IN ASSOCIATE

The Group has 49% interest in RSHM which is accounted for using the equity method in consolidated financial statements. Below is the summarized financial information of the Group's investment in the associate:

Summarised statement of financial position for associate

<i>Percentage of ownership</i>	RSHM	
	49%	
	2020	2019
	SR'000	SR'000
Current assets	6,222	7,783
Non current assets	15,572	17,684
Current liabilities	(11,648)	(11,202)
Non current liabilities	-	(1,402)
Group's carrying amount of investment	10,146	12,863

Carrying value of the investment in associate includes goodwill attributable to associate.

Summarised statements of comprehensive income for associates

	RSHM	RSHP	Total	Total
	2020			2019
	SR'000			SR'000
Revenue	3,394	28,767	32,161	-
Cost of revenue	(6,929)	(21,491)	(28,420)	-
Other income	1,163	(175)	988	-
Administrative expenses	(2,904)	(4,643)	(7,547)	-
Other operating expenses	(315)	(70)	(385)	-
Finance charges	-	(100)	(100)	-
Income tax	-	(986)	(986)	-
Finance income	47	15	62	-
Total comprehensive (loss)/profit	(5,544)	1,317	(4,227)	-
Group's share of (loss)/profit for the year	(2,717)	263	(2,454)	-

At 31 December 2020, the Group disposed off its remaining interest (20%) in RSHP for a consideration of SR 3.75 million. As a result, the equity interest in RSHP reduced to nil (2019: 100%) (refer note 1 for further details).

22 PREPAYMENTS AND OTHER RECEIVABLES

	2020	2019
	SR'000	SR'000
Consideration receivable for sale of subsidiary (note 1.1)	13,027	9,277
Amounts due from related parties (note 33)	22,642	15,706
Prepaid expenses and deposits	11,103	15,675
Advance and valued added tax for the foreign subsidiaries	2,409	2,409
Advances to employees	1,731	2,045
Margin deposits	1,610	3,616
Prepaid short-term lease rentals	324	2,548
Others	6,059	3,856
	58,905	55,132

Balance amount due from related parties includes SR 13.8 million, net of impact of time value of money for SR 832 thousand (2019: SR 15.7 million). Terms and conditions for related party transactions and balances are disclosed under note 33 of these consolidated financial statements.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

23 CASH AND CASH EQUIVALENTS

	2020	2019
	SR'000	SR'000
Bank balances	31,122	66,303
Cash in hand	472	637
Short-term deposits	-	40,139
	31,594	107,079

Short term deposits (conventional) were held with commercial banks and yield financing income at prevailing market rates. The annual interest on short-term deposits ranges from 0.70% to 2.4% per annum (2019: 1.5% to 2.5% per annum). Total finance income on short-term deposits amounted to SR 0.35 million (2019: SR 1.7 million).

24 SHARE CAPITAL

The authorised paid up share capital of the Company as at 31 December 2020 and 2019 was comprised of 60,000,000 shares stated at Saudi Riyals 10 per share.

25 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.

At 31 December 2020, the Board of Directors resolved to transfer the statutory reserves in order to absorb the accumulated losses of the Group therefore, balance was transferred in full to the accumulated losses.

26 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>	2020	2019
SARL Red Sea Housing Services Algeria Limited ("RSA")	Rental/sales of non-concrete building	Algeria	2%	2%
Premier Paints Company ("PPC")	Manufacturing and trading paints	Saudi Arabia	19%	19%

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

Summarised statement of profit or loss and other comprehensive income:

	31 December 2020		31 December 2019		
	SR'000		SR'000		
	RSA	PPC	RSA	PPC	RSHM
				<i>Restated</i>	<i>(Note 26.1)</i>
				<i>(Note 1.1 & 40)</i>	
Revenues	5,851	26,178	7,882	43,597	1,683
Loss for the year	(1,992)	(18,860)	(801)	(14,904)	(12,623)
Other comprehensive (loss)/income	-	108	-	(2,091)	109
Total comprehensive loss	(1,992)	(18,752)	(801)	(16,995)	(12,514)
Attributable to non-controlling interests	(40)	(3,564)	(16)	(3,229)	(1,251)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

26 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

Summarised statement of financial position:

	31 December 2020		31 December 2019		1 January 2019	
	SR'000		SR'000		SR'000	
	RSA	PPC	RSA	PPC	RSA	PPC
		Restated		Restated		Restated
		(Note 40)		(Note 40)		(Note 40)
Current assets	13,962	9,419	10,598	20,438	9,684	17,046
Current liabilities	(2,971)	(31,987)	(3,159)	(30,188)	(3,096)	(28,268)
Net current assets/(liabilities)	10,991	(22,568)	7,439	(9,750)	6,588	(11,222)
Non-current assets	11,995	8,127	17,503	10,316	18,968	11,005
Non-current liabilities	-	(53,559)	-	(50,296)	-	(32,423)
Net non-current assets/(liabilities)	11,995	(45,432)	17,503	(39,980)	18,968	(21,418)

	31 December 2020		31 December 2019		
	SR'000		SR'000		
	RSA	PPC	RSA	PPC	RSHM
				Restated	(Note 26.1)
				(Note 40)	
Cash flows (used in)/from operating activities		5,468	(2,257)	997	(15,072)
Cash (used in) /from investing activities		(3,838)	(47)	(197)	(124)
Cash from/(used in) financing activities		-	2,431	-	15,391
Net increase/(decrease) in cash and cash equivalents		1,630	127	800	195

26.1 The Summarised statement of profit or loss and other comprehensive income for RSHM is presented as discontinued operations (refer note 1 for further details).

27 INTEREST BEARING LOANS AND BORROWINGS

	2020	2019
	SR'000	SR'000
Interest bearing short-term borrowings (note 27.1)	79,273	120,922
Current portion of long-term borrowings (note 27.2)	26,365	42,691
Total short-term and current portion of long-term borrowings	105,638	163,613
Non-current portion of long-term borrowing (note 27.2)	36,608	43,939
Total borrowings	142,246	207,552

27.1 At 31 December 2020 and 2019, 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 2020 were approximately SR 63.0 million (2019: SR 92.8 million) principally representing overdrafts, short-term loans and re-financing of invoices and 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

27 INTEREST BEARING LOANS AND BORROWINGS (continued)

27.2 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 2021 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.

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

	2020 SR'000	2019 SR'000
2020	-	163,613
2021	105,638	25,510
2022	31,465	13,286
2023	5,143	5,143
	142,246	207,552

27.4 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>Premier Paints Company</i>	<i>Total</i>
	SR ' 000		
Conventional borrowings	62,259	9,273	71,532
Tawarruq	70,714	-	70,714
At 31 December 2020	132,973	9,273	142,246
Conventional borrowings	101,893	10,923	112,816
Murabaha	8,736	-	8,736
Tawarruq	86,000	-	86,000
At 31 December 2019	196,629	10,923	207,552

Premier Paints Company's ("PPC") short-term loan agreement is subject to covenant clauses, whereby the PPC is required to meet certain key financial ratios. PPC did not maintain the required tangible net worth ratio as defined in the facility agreement however, the loan is secured by corporate guarantee issued by the shareholders of PPC. The outstanding balance is presented as a current liability as at 31 December 2020 and does not have any impact on the consolidated financial statements of the Group.

28 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 2020 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:

	2020	2019
Discount rate	1.6%	2.8%
Expected rate of salary increase	4.0%	4.0%
Retirement period	60 years	60 years

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

28 EMPLOYEES' DEFINED BENEFIT LIABILITIES (continued)

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

	2020 SR'000	2019 SR'000
Current service cost	4,266	2,890
Interest cost on benefit obligation	842	1,116
Net benefit expense	5,108	4,006

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

	2020 SR'000	2019 SR'000
At the beginning of the year	34,495	38,025
Net benefit expense	5,108	4,006
Benefits paid	(8,000)	(11,906)
Remeasurement loss on employees' defined benefit liabilities	1,394	4,370
At the end of the year	32,997	34,495

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

	2020 SR'000	2019 SR'000
Actuarial gains arising from changes in demographic assumptions	-	(79)
Actuarial losses arising from changes in financial assumptions	2,515	1,418
Experience adjustments	(1,121)	3,031
At the end of the year	1,394	4,370

28.4 Breakup of the employee benefit obligations by geographic segment:

	Saudi Arabia SR'000	UAE SR'000	Ghana SR'000	Papua New Guinea SR'000	Algeria SR'000	Other SR'000	Total SR'000
2020	19,723	8,153	4,438	-	362	321	32,997
2019	18,074	8,783	5,043	1,617	317	661	34,495

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

	Increase/ (decrease)	2020 SR '000	2019 SR '000
Discount rate	1.00% (1.00%)	(1,978) 2,187	(1,959) 2,187
Expected rate of salary increase	1.00% (1.00%)	2,000 (1,846)	2,021 (1,842)
Retirement age	1 Year (1 Year)	(703) 907	(1,559) 1,650

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

28 EMPLOYEES' DEFINED BENEFIT LIABILITIES (continued)

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

	2020 SR '000	2019 SR '000
Within the next 12 months (next annual reporting period)	4,575	4,848
Between 2 and 5 years	10,724	11,947
Over 5 years	21,419	24,492
Total expected payments	36,718	41,287

The average duration of the defined benefit plan obligation at the end of the reporting period is 6.7 years (31 December 2019: 6.1 years).

During the year, the Group have contributed SR 1.4 million (2019: SR 1.5 million) into the general organisation of social insurance ("GOSI") for its Saudi national staff.

29 OTHER NON CURRENT LIABILITIES

Other non-current liabilities represents the provision for decommissioning costs related 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 2019 through 2026. Movement in the provision for decommissioning costs was as follows:

	2020 SR'000	2019 SR'000
At the beginning of the year	26,236	26,628
Unwinding of discount charge for the year	667	661
Amount utilised during the year	(1,511)	(1,053)
At the end of the year	25,392	26,236
Less: current portion (note 31)	(317)	(8,918)
	25,075	17,318

30 TRADE PAYABLES

	31 December 2020 SR'000	31 December 2019 SR'000	1 January 2019 SR'000 Restated (Note 40)
Trade accounts payables	136,617	77,254	60,430
Due to related parties (note 33)	1,543	1,800	606
	138,160	79,054	61,036

30.1 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 33.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

31 ACCRUALS AND OTHER LIABILITIES

	2020 SR'000	2019 SR'000
Accrual for project operation and catering costs	110,018	64,066
Employee salaries and benefits	16,276	12,846
Accrued consultancy charges	9,778	677
Accrued indirect taxes	7,461	5,876
Provision for assurance type warranties	765	1,154
Provision for decommissioning costs (note 29)	317	8,918
Payable against acquisition of a subsidiary	-	724
Other accrued expenses	34,079	17,828
	178,694	112,089

32 ZAKAT AND INCOME TAX

The major components of zakat and income tax expense for the year ended 31 December 2020 and 2019 are:

Consolidated statement of profit or loss

	2020 SR'000	2019 SR'000
Zakat	8,664	5,500
Income tax expense	-	(958)
	8,664	4,542

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

	Zakat	Current tax	Total	Zakat	Current tax	Total
	31 December 2020			31 December 2019		
	SR '000			SR '000		
At the beginning of the year	18,719	4,257	22,976	21,575	4,954	26,529
Current year (credit)/provision	8,664	-	8,664	5,500	(194)	5,306
Transfer on disposal of a subsidiary	-	(890)	(890)	-	-	-
Payments during the year	(6,733)	(48)	(6,781)	(8,356)	(503)	(8,859)
At 31 December	20,650	3,319	23,969	18,719	4,257	22,976

32.2 Zakat

(i) Zakat charge for the year consist of :

	2020 SR'000	2019 SR'000
Charge for the year	5,100	5,500
Prior period adjustment	3,564	-
	8,664	5,500

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

32 ZAKAT AND INCOME TAX (continued)

32.2 Zakat (continued)

(ii) Status of assessments (continued)

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 2010. The zakat declarations until years 2019 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT from 2011 through 2013 and for the years 2018 and 2019.

During the year, the General Authority of Zakat and Income Tax ("GAZT") had issued an assessment for the years 2014 through 2017 amounting to SR 67.1 million for the Company and its wholly owned subsidiaries. The Company filed an appeal against the GAZT assessment for the said period. However, the parent Company maintains sufficient provision in the books to account for any liability arising upon the ultimate resolution of these issued assessment.

b) Partially owned subsidiaries

Premier Paints Company

During 2019, PPC received a revised additional zakat assessment from the GAZT for the years 1999 to 2014 amounting to SR 2.6 million. The Company has filed an appeal against the assessment, which is pending with the relevant authority. 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.

32.3 Income Tax

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

	2020 SR '000	2019 SR '000
Current year provision	-	799
Adjustment related to prior year	-	(993)
	<u>-</u>	<u>(194)</u>

Income tax provision is provided for in accordance with fiscal authorities in which the Group's subsidiaries operate outside the Kingdom of Saudi Arabia. No income tax provided during the year due to the taxable losses.

(ii) Reconciliation of income tax expense

	2020 SR '000	2019 SR '000
Income tax at statutory tax rate of 20%	-	509
Adjustments for the foreign income tax	-	290
Income tax expense	<u>-</u>	<u>799</u>

(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. The company received tax assessment for years from 2011 to 2016 amounting to SR 4.7 million. The company filed an appeal against this amount and settled SR 1.5 million in 2018, however the assessment yet to be finalised. The company is currently under a tax audit for the 2017-2020 years of assessment. The income tax return for year ended 31 December 2019 have been filed with the GRA. However, the final assessment has not yet been raised.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

32 ZAKAT AND INCOME TAX (continued)

32.4 *Deferred Tax*

The Group has not recognized net deferred tax asset of SR 13.8 million (2019: SR 22.1 million) due to uncertainty over recoverability of such deferred tax asset in the near future.

33 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.

33.1 Significant transactions with related parties' included in the consolidated statement of profit and loss are as follows:

	2020	2019
Nature of transaction	SR'000	SR'000
Expenses paid on behalf of associates	3,547	-
Other income	938	-
Payment for land rentals	883	883
Expenses paid by the ultimate parent company on behalf of the Group	338	-
Payment against insurance premium	-	197

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

Amount due from related parties presented under prepayments and other receivables

	2020	2019
	SR'000	SR'000
Petromin Corporation (note 22)	13,767	15,706
Red Sea Housing Malaysia SDN BHD (note 22)	8,875	-
	22,642	15,706

Amount due to related parties presented under trade payables

	31 December 2020	31 December 2019	1 January 2019
	SR'000	SR'000	SR'000
		Restated (Note 40)	Restated (Note 40)
Dabbagh Group Holding Company Limited (note 30)	784	546	606
National Scientific Company (note 30)	15	-	-
Sherwin-Williams Protective and Marine Coatings (note 30)	744	1,254	-
	1,543	1,800	606

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

33 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	2020	2019	2020	2019
	SR'000	SR'000	SR'000	SR'000
	<i>Members of</i>		<i>Key</i>	
	<i>Board of Directors</i>		<i>Management</i>	
Short-term employee benefits	-	-	8,974	8,519
End-of service employee benefits	-	-	323	323
Board of directors' fees	1,202	804	-	-
	1,202	804	9,297	8,842

34 CONTINGENCIES AND COMMITMENTS

As at 31 December 2020, the Group had capital commitments of SR 1.5 million (2019: SR 4.8 million). Also at December 31 the Group had the following outstanding contingencies:

	2020	2019
	SR'000	SR'000
Letters of guarantee	97,139	88,551
Letters of credit	347	6,110

35 OPERATING LEASES

The Group leased out various residential houses under operating lease agreements. Rental income from such leases for the year ended 31 December 2020 amounted to SR 189.6 million (2019: SR 211.7 million).

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

	2020	2019
	SR'000	SR'000
Within one year	187,000	149,000
After one year but not more than five	240,000	43,000
	427,000	192,000

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

36 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 consolidated financial statements.

The following tables present revenue and profit information for the Group's operating segments, excluding RSHM and RSHF (disclosed as discontinued operations (note 1.1)), for the years ended 31 December 2020 and 2019, respectively:

Business segments

	31 December 2020				31 December 2019			
	Non-concrete residential and commercial buildings	Rentals from investment properties	Paints and related services	Total segments	Non-concrete residential and commercial buildings (Note 1.1)	Rentals from investment properties	Paints and related services	Total segments
	SR '000				SR '000			
							Restated (Note 1.1 & 40)	Restated (Note 1.1 & 40)
Revenue:								
Total segment revenue	319,405	189,639	26,177	535,221	352,234	211,685	43,598	607,517
Inter-segment revenue elimination	-	-	(1,701)	(1,701)	-	-	(1,451)	(1,451)
Revenue from external customers	319,405	189,639	24,476	533,520	352,234	211,685	42,147	606,066
Timing of revenue recognition:								
At point in time	190,720	-	24,476	215,196	310,701	-	42,147	352,848
Over time	128,685	189,639	-	318,324	41,533	211,685	-	253,218
	319,405	189,639	24,476	533,520	352,234	211,685	42,147	606,066
(Loss)/profits before finance cost, finance income, depreciation & amortization and zakat and income tax	(103,064)	67,358	(16,503)	(52,209)	(23,199)	74,090	(8,997)	41,894
Impairment			(8,234)	(8,234)	-	-	(4,962)	(4,962)
Finance cost	(5,445)	(5,689)	(2,528)	(13,662)	(4,083)	(4,439)	(6,178)	(14,700)
Finance income	350	-	-	350	1,688	-	-	1,688
Depreciation & amortisation	(22,227)	(53,029)	(4,451)	(79,707)	(25,532)	(58,967)	(4,231)	(88,730)
(Loss)/profit before zakat and income tax	(130,386)	8,640	(31,716)	(153,462)	(51,126)	10,684	(24,368)	(64,810)
Income tax	-	-	-	-	889	69	-	958
Zakat	(4,538)	(4,741)	615	(8,664)	(2,686)	(2,814)	-	(5,500)
Segment (loss)/profit from continued operations	(134,924)	3,899	(31,101)	(162,126)	(52,923)	7,939	(24,368)	(69,352)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

36 SEGMENTAL INFORMATION (continued)

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

	At 31 December 2020				At 31 December 2019			
	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			
							Restated (Note 1.1 & 40)	Restated (Note 1.1 & 40)
Total assets	500,664	523,085	17,344	1,041,093	542,966	568,725	41,075	1,152,766
Total liabilities	412,515	175,189	32,563	620,267	398,303	137,467	31,254	567,024

During the year ended 31 December 2020, approximately 67% of the total revenues from non-concrete residential and commercial buildings segment were derived from 7 customers (2019: approximately 38% from 4 customers). During the year, approximately 60% of the total revenues from rental segment were derived from 3 customers (2019: approximately 55% from 3 customers).

The Group's operations are conducted in Saudi Arabia, UAE, Ghana, 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 2020					
	Saudi Arabia	UAE	Ghana	Algeria	Others	Total
	SR '000					
Total segment revenue	396,099	112,562	22,642	5,850	2,886	540,039
Inter-segment revenue elimination	(1,701)	(4,818)	-	-	-	(6,519)
Revenue from external customers	394,398	107,744	22,642	5,850	2,886	533,520
Segment loss from continued operations	(96,109)	(52,806)	(16,295)	(2,866)	5,950	(162,126)
	31 December 2019					
	Saudi Arabia	UAE	Ghana	Algeria	Others	Total
	SR '000					
Total segment revenue	445,153	129,072	32,269	7,882	9,412	623,788
Inter-segment revenue elimination	(1,451)	(16,254)	(17)	-	-	(17,722)
Revenue from external customers	443,702	112,818	32,252	7,882	9,412	606,066
Segment loss from continued operations	(39,439)	(11,751)	(13,496)	(1,896)	(2,770)	(69,352)

Red Sea International Company (A Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

36 SEGMENTAL INFORMATION (continued)

	31 December 2020						
	Saudi Arabia	UAE	Ghana	Algeria	Others	Total	
	SR '000						
Non-current assets							
Investment in an associate	-	10,146	-	-	-	10,146	
Property, plant and equipment	31,990	33,663	21,887	3,255	185	90,980	
Investment properties	345,230	1,803		8,002	1,232	356,267	
Intangible assets	3,294	920	8	8	-	4,230	
Total assets and liabilities							
Total assets	759,577	164,219	80,378	25,956	10,963	1,041,093	
Total liabilities	494,941	108,764	12,630	2,971	961	620,267	
	31 December 2019						
	Saudi Arabia	UAE	Ghana	Papua New	Algeria	Others	Total
	SR '000						
	Restated (Note 40)						Restated (Note 40)
Non-current assets							
Investment in an associate	-	12,863	-	-	-	-	12,863
Property, plant and equipment	39,219	36,543	23,528	6,790	412	1,541	108,033
Investment properties	356,931	2,112	-	909	16,243	1,366	377,561
Intangible assets	12,827	1,612	33	24	12	-	14,508
Total assets and liabilities							
Total assets	791,640	190,029	97,243	40,314	28,100	5,440	1,152,766
Total liabilities	446,366	95,796	12,280	7,963	3,159	1,460	567,024

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

37 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.

37.1 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.

37.1 (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>
2020	-100	(481)
	+100	481
2019	-100	(779)
	+100	779

37.1 (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.

37.1 (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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

37 FINANCIAL RISK MANAGEMENT (continued)

37.1 Market risk (continued)

37.1 (c) Foreign currency risk (continued)

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.

Currency	2020		2019	
	Change in currency rate %	Effect on equity SR'000	Change in currency rate %	Effect on equity SR'000
PGK	10	847	10	3,235
OMR	10	150	10	176
MYR	10	-	10	100
LYD	10	19	10	89
MZN	10	22	10	33

37.2 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:

	2020 SR'000	2019 SR'000 <i>Restated (Note 40)</i>
Bank balances	31,122	66,303
Short-term deposits	-	40,139
Accounts receivable	215,983	248,961
Contract assets	43,764	44,294
Other receivables	45,069	34,500
	335,938	434,197

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 2020, the Group had 4 customers (2019: 7) that owed it more than SR 10 million each and accounted for approximately 62% (2019: 58%) 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.

Red Sea International Company (A Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
 At 31 December 2020

37 FINANCIAL RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

Set out below is the information about the credit risk exposure at reporting date on the Group's accounts receivables:

	<i>Trade receivables</i>					<i>Total</i>
	<i>Current</i>	<i>< 30 days</i>	<i>30 - 60 days</i>	<i>61 - 90 days</i>	<i>> 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>
31 December 2020	57,160	22,037	49,717	9,514	160,044	298,472
31 December 2019	121,296	43,827	17,646	6,685	140,565	330,019

Based on a provision matrix, the Group's expected credit losses at 31 December 2020 against its trade receivables exposed to credit risk amounted to SR 82.5 million (2019: SR 81 million). In 2020, the Group recognised an amount of SR 5.8 million as allowance for expected credit losses in its statement of profits or loss (2019 : SR 2.26 million).

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.

37.3 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.

37.3 (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.

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

Year ended 31 December 2020

	<i>Less than 1 year</i>	<i>1 to 5 years</i>	<i>> 5 years</i>	<i>Total</i>
	<i>SR '000</i>			
Interest bearing loans and borrowin	105,173	38,338	-	143,511
Lease liabilities	14,058	27,641	18,382	60,081
Trade and other payables	154,436	-	-	154,436
	273,667	65,979	18,382	358,028

Red Sea International Company (A Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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37 FINANCIAL RISK MANAGEMENT (continued)

37.3 Liquidity risk (continued)

37.3 (a) Excessive risk concentration (continued)

Year ended 31 December 2019

	<i>Less than 1 year</i>	<i>1 to 5 years</i>	<i>> 5 years</i>	<i>Total</i>
	SR'000			
Interest bearing loans and borrowings	168,412	45,992	-	214,404
Lease liabilities	12,830	41,244	24,799	78,873
Trade and other payables	75,676	-	-	75,676
Other liabilities	724	-	-	724
	257,642	87,236	24,799	369,677

37.4 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>Total</i>
	SR'000			
At 1 January 2019	85,418	48,805	90,500	224,723
Cash flows	(41,341)	(6,252)	30,422	(17,171)
Reclassifications	(138)	138	-	-
31 December 2019	43,939	42,691	120,922	207,552
Cash flows	(7,331)	(16,326)	(41,649)	(65,306)
31 December 2020	36,608	26,365	79,273	142,246

38 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.

- "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)"
- "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 0.7 to 3.0 and leverage ratio within 0.5 to 1 (2019: total gearing ratio within 0.5 to 3 and leverage ratio within 0.2 to 1)

Red Sea International Company (A Saudi Joint Stock Company)
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39 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 measure 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 2020 was assessed to be insignificant.

40 RESTATEMENT OF COMPARATIVE FINANCIAL INFORMATION

During the year ended 31 December 2020, management of one of the subsidiaries, identified certain errors in relation to certain irregularities involving personnel of predecessor management. The management decided to correct such errors by restating each of the affected financial statement line items for the prior period. The impact of restatement was as follows:

Impact on statement of financial position (increase/(decrease)) :

	31 December 2019			1 January 2019		
	Previously reported	Adjustment SR '000	Restated	Previously reported	Adjustment SR '000	Restated
ASSETS						
Property, plant and equipment	136,007	(27,974)	108,033	159,121	(30,325)	128,796
Accounts receivables - current	218,687	(2,913)	215,774	-	-	-
	354,694	(30,887)	323,807	159,121	(30,325)	128,796
EQUITY						
Accumulated losses	(87,986)	(27,755)	(115,741)	(12,129)	(24,788)	(36,917)
Non-controlling interests	(10,756)	(6,510)	(17,266)	(13,458)	(5,814)	(19,272)
	(98,742)	(34,265)	(133,007)	(25,587)	(30,602)	(56,189)
LIABILITY						
Accounts payable	75,676	3,378	79,054	60,759	277	61,036

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40 RESTATEMENT OF COMPARATIVE FINANCIAL INFORMATION (continued)

Impact on statement of profit or loss:

	31 December 2019			
	Previously reported	Adjustment	Reclassification (Note 1.1)	Restated
	SR '000			
Revenue	641,081	(2,913)	(32,102)	606,066
Cost of sales	(589,392)	(453)	24,485	(565,360)
Gross profits	51,689	(3,366)	(7,617)	40,706
EXPENSES				
Selling and distribution expenses	(32,654)	(224)	791	(32,087)
General and administration expenses	(62,098)	(73)	2,563	(59,608)
Impairment of intangible assets	(4,962)	-	-	(4,962)
OPERATING LOSS	(48,025)	(3,663)	(4,263)	(55,951)
LOSS ATTRIBUTABLE TO:				
Equity holders of the parent company	(71,884)	(2,967)	-	(74,851)
Non-controlling interests	(3,414)	(696)	-	(4,110)
	(75,298)	(3,663)	-	(78,961)

Impact on earning per share:

	31 December 2019		
	Previously reported SR	Adjustment SR	Restated SR
LOSS PER SHARE:			
Basic and diluted losses per share attributable to the shareholders of the parent company	(1.20)	(0.05)	(1.25)

41 COVID-19 ASSESSMENT

The outbreak of novel coronavirus ("COVID-19") since early 2020 and its spread across mainland China and then globally caused disruptions to businesses and economic activities including the KSA. The World Health Organisation qualified COVID-19 as a pandemic, with governments issuing strict regulations and guidance for its populations and companies. It necessitated the Company to re-assess its judgments and the key sources of estimation applied to the annual financial statements for the year ended 31 December 2020.

During the year ended 31 December 2020, management has assessed the overall impact on the Company's operations and business aspects, and considered factors like effects on impact of decreased oil prices, margin squeeze and project delays and prolongation. Based on this assessment, no significant adjustments were required in the financial statements for the year ended 31 December 2020. However, in view of the ongoing uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets and/or liabilities in future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

42 SUBSEQUENT EVENTS

In the opinion of management, there have been no significant subsequent events since the year ended 31 December 2020 that would have a material impact on the financial position of the Company as reflected in these financial statements.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

43 COMPARATIVE FIGURES

In addition to the restatement mentioned in the note 40, certain of the prior year amounts have been reclassified to conform to the presentation in the current year. The details for reclassification are as follows:

	31 December 2019		
	<i>Previously reported</i>	<i>Reclassification SR '000</i>	<i>Reclassified amount</i>
Trade receivables - non current	48,893	(15,706)	33,187
Prepayments and other receivables	39,426	15,706	55,132

**RED SEA INTERNATIONAL COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
31 DECEMBER 2021**

Red Sea International Company (A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS TO SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)

1/7

Opinion

We have audited the consolidated financial statements of Red Sea International Company, a Saudi Joint Stock Company (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, 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 2021, 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 Chartered and Professional 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 ON THE AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS TO SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY) (continued)

2/7

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
RECOGNITION OF EXPECTED CREDIT LOSSES UNDER IFRS 9 AND IMPAIRMENT OF DISPUTED TRADE RECEIVABLES At 31 December 2021, the Group has gross outstanding receivables of SR 316.9 million (2020: SR 344.3 million) related to trade receivables and contract assets. Out of which an outstanding receivable of SR 88.7 million relates to a customer in Angola. At 31 December 2021, an allowance for expected credit losses amounting to SR 83.0 million (2020: SR 84.6 million) is maintained out of which an amount of SR 55.5 million (2020: SR 55.5 million) pertains to the above customer. 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 allowance for expected credit losses and in the preparation of ECL model. <i>Refer to the notes 4, 18, 19 and 36 of the consolidated financial statement for the accounting policy and other related information.</i>	We performed the following procedures to address the key audit matter: - We obtained and tested the expected credit loss (ECL) model prepared by the management. - We evaluated the reasonableness of the significant judgments used by the management to develop loss rates and final ECL allowance using the loss rates. - We also verified the data inputs used in assessing the loss rates. - We evaluated forward-looking information, wherever applicable, that reflects the impact of future events on expected credit losses. - With respect to the customer with SR 88.7 million outstanding receivable, we held discussions with the legal counsel for the expected outcome of the legal proceedings and their effect on allowance for expected credit losses. - We assessed the adequacy of disclosures presented in the consolidated financial statements.



INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS 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
IMPAIRMENT OF NON-FINANCIAL ASSETS As at 31 December 2021, the carrying value of the Group's property, plant and equipment, investment properties, intangible assets and right-of-use assets amounted to SR 79.9 million, SR 305.4 million, SR 3.3 million and SR 46.9 million, respectively. For the purpose of the financial statements for the year ended 31 December 2021, the management assessed the losses incurred by the Group and market condition as impairment indicators and accordingly, performed impairment assessment. Based on impairment assessment as of 31 December 2021, no impairment has been identified for the current year as the recoverable amount is higher than the carrying value of related assets. This assessment required management to use significant judgment over the assumptions and estimations in determining the recoverable amount. The significant assumptions and estimations used include, among others, annual revenue growth, forecasted gross margins and weighted average cost of capital. Due to aforesaid facts, we determined that this is a key audit matter. <i>Refer to the notes 4, 13, 14, 15 and 16 of the consolidated financial statement for the accounting policy and other related information.</i>	We performed the following procedures to address the key audit matter: - We reviewed the management's procedures in identifying impairment indicators. - We obtained management's impairment calculations and related key assumptions including revenue forecasts, basis of selection of growth rates and discount rates. - We assessed the appropriateness of the valuation model and tested significant 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. - 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. Our internal valuation specialists were involved to assess the reasonableness of the discount rate used and overall impairment computation. - We have also assessed the adequacy of the related disclosures in the accompanying consolidated financial statements. - Assessed the qualifications, independence and expertise of the management's external valuers, involved in the valuation of investment properties.



**INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
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
ZAKAT POSITION During 2020, the Zakat, Tax and Customs Authority ("ZATCA") had issued an assessment for the years 2014 through 2017 amounting to SR 67.1 million for the Company and its wholly owned subsidiaries. The Company filed an appeal against the ZATCA assessment for the said period. During the year, the ZATCA issued revised assessment for the same period with revised additional liability of SR 62.8 million. The Company has escalated the appeal against the assessment with General Secretariat of Tax Committee ("GSTC"). Further, during the year ZATCA issued the zakat assessment for the years 2019 and 2020 with additional liability of SR 11.6 million. Subsequent to the reporting date, the Company filled an appeal against the assessment raised. However, the Group's management believes that the provision made in the consolidated statement of financial position is sufficient to cover any additional zakat liability that may arise for the said assessment. We consider this as a key audit matter as it involves significant management judgement, and zakat provision and the related assessment issued by ZATCA are material to the consolidated financial statements. <i>Refer to the notes 4 and 31 of the consolidated financial statement for the accounting policy and other related information.</i>	We performed the following procedures to address the key audit matter: - Gained an understanding of the process management followed to assess the impact of the assessment issued by the ZATCA. - Reviewed correspondences between the Group and ZATCA to determine the amount of the additional assessments made by ZATCA. - Evaluated reasonableness of the Group management's zakat opinion on each of the assessments issued by the ZATCA. - Evaluated the reasonableness of the assessment for the accounting of uncertain zakat position in light of the zakat regulations, recent practices of ZATCA and merits of appeals filed with the ZATCA against the assessment raised. - Assessed the appropriateness of disclosure made in relation to the assessment issued by ZATCA in respect of claiming additional zakat liability.



**INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
TO SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY
(A SAUDI JOINT STOCK COMPANY) (continued)**

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Other information included in the Group's 2021 Annual Report

Other information consists of the information included in the Group's 2021 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 2021 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 2021 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 Chartered and Professional 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.

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.



INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS 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 Statement (continued)

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.
- 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.



**INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
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)

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 Professional Services



Marwan S. AlAfaliq
Certified Public Accountant
License No. 422

Al Khobar: 28 Sha'ban 1443H
31 March 2022



Red Sea International Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	Note	2021 SR'000	2020 SR'000 (Note 1.1)
Revenues	6	468,201	533,520
Cost of revenues	7	(496,545)	(561,868)
GROSS LOSS		(28,344)	(28,348)
EXPENSES			
Selling and distribution expenses	8	(18,049)	(29,363)
General and administration expenses	9	(62,987)	(72,606)
Impairment of intangible assets	15	-	(8,234)
OPERATING LOSS		(109,380)	(138,551)
Share in result of investment in associates	20	(2,225)	(2,454)
Other income, net	10	1,618	855
Finance cost	11	(10,537)	(13,662)
Finance income		58	350
LOSS BEFORE ZAKAT AND INCOME TAX FROM CONTINUING OPERATIONS		(120,466)	(153,462)
Income tax	31	(113)	-
Zakat	31	(11,788)	(8,664)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(132,367)	(162,126)
DISCONTINUED OPERATIONS			
Profit after tax for the year from discontinued operations	1.1	-	180
LOSS FOR THE YEAR		(132,367)	(161,946)
LOSS ATTRIBUTABLE TO:			
Equity holders of the Parent Company		(130,439)	(158,323)
Non-controlling interests		(1,928)	(3,623)
		(132,367)	(161,946)
LOSS PER SHARE:			
Basic and diluted losses per share attributable to the shareholders of the Parent Company	12	(2.17)	(2.64)
LOSS PER SHARE ATTRIBUTABLE TO CONTINUED OPERATIONS:			
Basic and diluted losses per share attributable to the shareholders of the Parent Company	12	(2.18)	(2.64)





Chairman of the Board Chief Financial Officer Chief Executive Officer

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 2021

	Note	2021 SR'000	2020 SR'000 (Note 1.1)
Loss for the year		(132,367)	(161,946)
Other comprehensive income/ (loss)			
<i>Other comprehensive income / (loss) 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		308	(1,851)
Net other comprehensive income / (loss) to be reclassified to consolidated statement of profits or loss in subsequent periods		308	(1,851)
<i>Other comprehensive loss not to be reclassified to the consolidated statement of profit or loss in subsequent periods net of zakat and tax:</i>			
Actuarial losses on defined benefit liabilities	27	(2,178)	(1,394)
Net other comprehensive loss not to be reclassified to consolidated statement of profit or loss in subsequent periods		(2,178)	(1,394)
Other comprehensive loss for the year		(1,870)	(3,245)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(134,237)	(165,191)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Equity holders of the parent company		(132,309)	(161,587)
Non-controlling interests		(1,928)	(3,604)
		(134,237)	(165,191)



Chairman of the Board



Chief Financial Officer



Chief Executive Officer

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 2021

	Note	2021 SR'000	2020 SR'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	13	79,863	90,980
Investment properties	14	305,441	356,267
Intangible assets	15	3,330	4,230
Right-of-use assets	16	46,896	58,009
Trade receivables	19	31,495	31,495
Investment in an associate	20	7,921	10,146
TOTAL NON-CURRENT ASSETS		474,946	551,127
CURRENT ASSETS			
Inventories	17	141,367	123,117
Contract assets	18	46,050	43,764
Trade receivables	19	156,370	184,488
Advances to suppliers		77,906	48,098
Prepayments and other receivables	21	49,496	58,905
Cash and cash equivalents	22	5,838	31,594
TOTAL CURRENT ASSETS		477,027	489,966
TOTAL ASSETS		951,973	1,041,093
EQUITY AND LIABILITIES			
EQUITY			
Share capital	23	600,000	600,000
Accumulated losses		(278,834)	(146,217)
Foreign currency translation reserve		(11,779)	(12,087)
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY		309,387	441,696
NON-CONTROLLING INTERESTS	25	(22,798)	(20,870)
TOTAL EQUITY		286,589	420,826
NON-CURRENT LIABILITIES			
Interest bearing loans and borrowings	26	-	36,608
Employees' defined benefit liabilities	27	31,331	32,997
Other non-current liabilities	28	25,712	25,075
Non-current portion of lease liabilities	16	34,721	43,509
TOTAL NON-CURRENT LIABILITIES		91,764	138,189

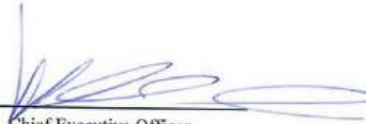
The attached notes 1 to 39 form part of these consolidated financial statements.

Red Sea International Company (A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
As at 31 December 2021

	Note	2021 SR'000	2020 SR'000
CURRENT LIABILITIES			
Trade payables	29	194,902	138,160
Accruals and other current liabilities	30	178,556	178,694
Short-term interest bearing loans and borrowings	26	118,656	79,273
Current portion of interest bearing loans and borrowings	26	21,429	26,365
Current portion of lease liabilities	16	14,281	13,014
Contract liabilities		15,839	22,603
Zakat and income tax payable	31	29,957	23,969
TOTAL CURRENT LIABILITIES		573,620	482,078
TOTAL LIABILITIES		665,384	620,267
TOTAL EQUITY AND LIABILITIES		951,973	1,041,093


 Chairman of the Board


 Chief Financial Officer


 Chief Executive Officer

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 2021

	Attributed to shareholders of the parent Company				Foreign currency		Non-controlling		Total equity	
	Share capital	Statutory reserve	Accumulated losses	translation reserve	Total	interests				
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
As at 1 January, 2020	600,000	129,260	(115,741)	(10,511)	603,008	(17,266)		585,742		
Loss for the year	-	-	(158,323)	-	(158,323)	(3,623)		(161,946)		
Other comprehensive loss	-	-	(1,413)	(1,851)	(3,264)	19		(3,245)		
Total comprehensive loss	-	-	(159,736)	(1,851)	(161,587)	(3,604)		(165,191)		
Disposal of a subsidiary (note 1)	-	-	-	275	275	-		275		
Transfer to accumulated losses (note 24)	-	(129,260)	129,260	-	-	-		-		
Balance at 31 December 2020	600,000	-	(146,217)	(12,087)	441,696	(20,870)		420,826		
Loss for the year	-	-	(130,439)	-	(130,439)	(1,928)		(132,367)		
Other comprehensive income / (loss)	-	-	(2,178)	308	(1,870)	-		(1,870)		
Total comprehensive loss	-	-	(132,617)	308	(132,309)	(1,928)		(134,237)		
Balance at 31 December 2021	600,000	-	(278,834)	(11,779)	309,387	(22,798)		286,589		

Chairman of the Board

Chief Financial Officer

Chief Executive Officer

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 2021

	Note	2021 SR'000	2020 SR'000
OPERATING ACTIVITIES			
Loss before zakat and income tax from continuing operations		(120,466)	(153,462)
Profit before zakat and income tax from discontinued operations	1.1	-	180
		(120,466)	(153,282)
<i>Adjustments to reconcile losses before zakat and income tax to net cash flows:</i>			
Depreciation of property, plant and equipment	13	11,599	13,197
Depreciation of investment properties	14	51,972	53,029
Amortization of intangible assets	15	907	2,860
Impairment of intangible assets	15	-	8,234
Depreciation of right-of-use assets	16	10,358	10,621
Provision for employees' defined benefit liabilities, net	27	4,412	5,108
Finance costs	11	10,537	13,662
Share in results of investment in associates	20	2,225	2,454
Loss on disposal of property, plant and equipment and investment properties		42	16
Intangible assets written-off		-	8
Gain on modification of right-of-use asset and related lease liabilities		(54)	(4)
Gain on disposal of a subsidiary	1.1	-	(180)
		(28,468)	(44,277)
Working capital adjustments:			
Inventories		(15,919)	(26,053)
Contract assets		(2,286)	530
Trade receivables		28,118	31,286
Advances to suppliers		(29,808)	(23,922)
Prepayment and other receivables		9,409	23,821
Trade payables		56,742	59,106
Accruals and other current liabilities		(138)	60,490
Other non-current liabilities		637	7,757
Advances from customers		(6,764)	(9,711)
Cash from operations		11,523	79,027
Finance cost paid		(7,844)	(8,261)
Employees' defined benefit liabilities paid	27	(8,256)	(8,000)
Zakat and income tax paid	31	(5,913)	(6,781)
Net cash flows (used in) / from operating activities		(10,490)	55,985
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	13	(3,987)	(4,165)
Purchase of investment properties	14	-	(41,257)
Purchase of intangible assets	15	(7)	(849)
Proceeds from disposal of property, plant and equipment		-	43
Proceeds from the sale of investment properties		-	415
Net cash used in investing activities		(3,994)	(45,813)

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 2021

	Note	2021 SR'000	2020 SR'000
FINANCING ACTIVITIES			
Proceeds from the interest bearing loans and borrowings		127,346	96,348
Repayment of interest bearing loans and borrowings		(129,507)	(161,654)
Payments for lease liabilities	16	(9,405)	(7,784)
Net cash used in financing activities		(11,566)	(73,090)
DECREASE IN CASH AND CASH EQUIVALENTS			
		(26,050)	(62,918)
Cash and cash equivalents at the beginning of the year		31,594	107,079
Movement in foreign currency translation reserve, net		294	(2,613)
Cash and cash equivalents related to disposed off subsidiary		-	(9,954)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	22	5,838	31,594
SIGNIFICANT NON-CASH TRANSACTIONS:			
Remeasurement loss on employees' defined benefit liabilities		(2,178)	1,394
Disposal of a subsidiary's assets		-	18,570
Foreign currency translation reserve relating disposal of a subsidiary		-	275
Assets re-recognised from Joint operations		-	7,878
Assets transferred out to Joint operations		-	8,200


Chairman of the Board


Chief Financial Officer


Chief Executive Officer

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 2021

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 registered in Riyadh, Kingdom of Saudi Arabia under commercial registration number 1010566349 pursuant to Ministerial Resolution No. 2532 dated 2 Ramadan 1427H (September 25, 2006). The registered address of the Company is Riyadh Front, Al-Rimal District, Airport Street, Riyadh, Kingdom of Saudi Arabia. During the year ended, the Company has changed its registered address to Riyadh, Kingdom of Saudi Arabia and converted the branch's commercial registration number 1010566349 into Company's main commercial registration. Formerly, the Company was registered in Jeddah, Kingdom of Saudi Arabia under commercial registration No 4030286984, which was subsequently converted into a branch. The Company have the 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 International Company	1010566349	Riyadh
Red Sea Housing Services Company	4030263716	Jeddah

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 and an associate included in the Group:

	<i>Country of incorporation</i>	<i>Effective ownership percentage</i>	
		<i>2021</i>	<i>2020</i>
<u>Subsidiaries</u>			
Red Sea Housing Services (Ghana) Limited ("RSG")	Ghana	100%	100%
SARL Red Sea Housing Services Algeria Limited ("RSA")	Algeria	98%	98%
Red Sea Housing Services Company Dubai FZE ("RSD")	UAE	100%	100%
Red Sea Building Materials and Equipments Trading Company ("RSBM")	Saudi Arabia	100%	100%
Premier Paints Company ("PPC")	Saudi Arabia	81%	81%
Red Sea Housing Services (Mozambique), LDA ("RSM")	Mozambique	100%	100%
Red Sea Housing Services LLC ("RSO")	Oman	100%	100%
Red Sea Housing Malaysia Services Sdn. Bhd ("RSHSM")	Malaysia	-	100%
Red Sea Modular Rentals LLC ("RSMR")	UAE	100%	100%
Red Sea Construction LLC ("RSC")	UAE	100%	100%
Red Sea Modular Rentals (Kuwait) WLL ("RSMK")	Kuwait	100%	100%
<u>Associates</u>			
Red Sea Housing Malaysia Sdn. Bhd. ("RSHM")	Malaysia	49%	49%
<u>Joint Operations</u>			
Red Sea Hanchi ("RSHC")	Algeria	49%	49%

In addition to the above, the Group owns other subsidiaries, registered in Nigeria, Libya, Saudi Arabia, Singapore and also has licenses to operate branches in Papua New Guinea and Abu Dhabi which are consolidated in these consolidated financial statements. These other subsidiaries and branches are either in early stages of operations or have not commenced any commercial operations at the reporting date.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

1 CORPORATE INFORMATION (continued)

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.

During the year, the Group has completed the liquidation of Red Sea Housing Malaysia Services Sdn. Bhd, ("RSHSM"). There were no commercial operations of the subsidiary during the year (2020: no commercial operations).

The consolidated financial statements of the Group for the year ended 31 December 2021 were authorised for issuance in accordance with the Board of Directors resolution dated 29 March 2022 (26 Sha'ban 1443).

1.1 Sales of shares in subsidiaries and discontinued operations

Sale of shares in RSHP

During 2020, the Group disposed off its interest in Red Sea Housing Company PNG Limited ("RSHP") to a third party, the disposal occurred in two stages. At 1 January 2020, the Group disposed off its 80% of equity interest for a consideration of SR 15 million and remaining 20% equity interest was sold on 31 December 2020 for a consideration of SR 3.75 million. As a result, the equity interest in RSHP reduced to nil. The gain on disposal was calculated as follows:

	2020 SR'000
Total sale consideration	15,000
Carrying value of equity interest disposed off, net of bargain purchase	(14,820)
Gain on disposal	<u>180</u>

The Group has derecognised the assets and liabilities of RSHP and de-consolidated from the consolidated financial position of the Group at the date when control is lost (i.e. 1 January 2020).

In accordance with IFRS 5, the disposal of RSHP are classified as a discontinued operation. The results of RSHP until the date of disposal are presented below:

	2020 SR'000
Revenue	-
Expenses	-
Net income for the year from discontinued operations	<u>-</u>
Loss on disposal of discontinued operations	<u>180</u>
Gain from discontinued operations	<u>180</u>
<i>Attributable to:</i>	
Equity holders of the Parent Company	180
Non controlling interest	-
	<u>180</u>

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

1 CORPORATE INFORMATION (continued)

1.1 Sales of shares in subsidiaries and discontinued operations (continued)

	2020 SR'000
Loss for the year from discontinued operations attributable to the shareholders of the parent Company ("000")	180
Weighted average number of outstanding shares during the year (shares '000)	60,000
Basic and diluted losses per share attributable to the shareholders of the parent company	<u>0.01</u>

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 Chartered and Professional Accountants ("SOCPA") (collectively referred to as "IFRSs as endorsed in KSA").

The consolidated financial statements are prepared using historical cost convention on the basis that it will continue to operate as going concern.

These consolidated financial statements are presented in Saudi Riyals ("SR"). All values are rounded to the nearest thousands ("SR '000"), except when otherwise indicated.

At 31 December 2021, the Group's current liabilities exceeded its current assets which is primarily due to the upfront cost incurred on the recent projects awarded in KSA which has resulted in higher trade payables and accruals. The Group is in advanced stage of negotiations with the lending institutions for specific project based long-term financing to refinance initial expenses incurred by the Group, which will reduce the short-term liabilities and improve the overall liquidity of the Group. Accordingly, the management has prepared the accompanying consolidated financial statements on a going concern basis.

2.1 Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2021. 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 investee)
- 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

2 BASIS OF PREPARATION (continued)

2.1 Basis of consolidation (continued)

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.

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 (note 37)
- Financial risk management objectives and policies (note 36)
- Sensitivity analyses disclosures (note 27 & 36)

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.1 Significant judgements (continued)

Determination of transaction price (continued)

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.

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

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.

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.

Going Concern

The Group’s management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group’s ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Joint Operations

Judgement is required to determine when the Group has joint control, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements relate to the operating and capital decisions of the arrangement, such as: the approval of the capital expenditure programme for each year, and appointing, remunerating and terminating the key management personnel of, or service providers to, the joint arrangement. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. Judgement is also required to classify a joint arrangement as either a joint operation or joint venture. Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement. Specifically, it considers:

- The structure of the joint arrangement – whether it is structured through a separate vehicle
- When the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:
 - The legal form of the separate vehicle
 - The terms of the contractual arrangement
 - Other facts and circumstances (when relevant)

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.1 Significant judgements (continued)

Joint Operations (continued)

This assessment often requires significant judgement, and a different conclusion on joint control and also whether the arrangement is a JO or a JV, may materially impact the accounting.

Based on the Group's control assessment, investments held in RSHC is classified as joint operations. Based on management's judgement, the contractual arrangement establishes that the parties to the joint arrangement share their interests in all assets relating to the arrangement.

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, 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

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 28.

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

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the last year, except for the adoption of new standards effective as of 1 January 2020 as disclosed in note 5. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Business combination and goodwill (continued)

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.

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 Investments in associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence is similar to those necessary to determine control over subsidiaries. The Group's investments in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate is eliminated to the extent of the interest in the associate. The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of profit or loss outside operating profit and represents profit or loss after tax and noncontrolling interests in the associate.

The financial statements of the associate is prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share of profit of an associate' in the consolidated statement of profit or loss. Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of profit or loss.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Interest in joint arrangements

A joint arrangement is an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control over an arrangement which exists only when the decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control. The Group's joint arrangement is as follows:

Joint operations Red Sea Hanchi ("RSHC")

A joint operation (JO) is a type of joint arrangement in which the parties with joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. In relation to its interests in RSHC, the financial statements of the Group includes:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

All such amounts are measured in accordance with the terms of each arrangement which are in proportion to the Group's interest that is 49% in each asset and liability, income and expense of the RSHC.

4.4 Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area
- Is a subsidiary acquired exclusively with a view to resale

In the consolidated profit or loss of the reporting period, and of the comparable period of the previous year income and expenses from discontinued operations are reported separate from income and expenses from continuing activities, down to the level of profit, even when the Group retains a non controlling interest in the subsidiary after the sale. The resulting profit or loss is reported separately in the consolidated statement of profit or loss.

Additional disclosures are provided in note 1. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

4.5 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 the reporting period.

All other assets are classified as non-current.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5 Current versus non-current classification (continued)

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.

4.6 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.

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

- 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.

4.7 Revenue recognition

Revenue from contracts with customers

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Revenue recognition (continued)

Revenue from contracts with customers (continued)

a) Revenue from contracts with customers for sale of properties (continued)

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 Group 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 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

b) 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.

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.

(c) 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Revenue recognition (continued)

Rental revenue from investment properties

a) 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.

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.

4.8 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 Group 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 office equipment	4 to 5 years
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 profit or loss 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.

4.9 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9 Investment properties (continued)

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 statement of profit or loss. 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 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.

4.10 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 profit or loss 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 profit or loss 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.

4.11 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 transit	- 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.

Red Sea International Company (A Saudi Joint Stock Company)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

At 31 December 2021

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**4.11 Inventories (continued)**

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.

4.12 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.

4.13 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).

4.14 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

4.15 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.

4.16 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.

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.16 Provisions (continued)

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.

4.17 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.

4.18 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.

4.19 Zakat and taxes

Zakat and income tax

Zakat is provided for the Company and for subsidiaries operating inside the Kingdom of Saudi Arabia in accordance with Regulations of the Zakat, Tax and Customs Authority ("the ZATCA") 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 profit or loss. 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 profit or loss.

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.19 Zakat and taxes (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.

4.20 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 Group Chief Executive Officer, who assesses the financial performance and position of the Group, and makes strategic decisions. Group Chief Executive Officer has been identified as being the Group 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.21 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.

4.22 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Group as a lessee

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Land	2 - 39 years
Equipments	4 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Group as a lessee (continued)

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 lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

4.23 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 profit or loss 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 consolidated statement of profit or loss 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 profit or loss.

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 profit or loss, 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 profit or loss 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 profit or loss.

4.24 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 Group incurs in connection with the borrowing of funds.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.25 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 profit or loss. 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 profit or loss as past service costs.

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

4.26 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.

4.27 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.27 Financial instruments – initial recognition, subsequent measurement and derecognition (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.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial liabilities (continued)

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.

4.28 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

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.

4.29 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 30% of the share capital. The reserve is not available for distribution.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

5 STANDARDS ISSUED BUT NOT EFFECTIVE AND NEW STANDARDS

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

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

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5 STANDARDS ISSUED BUT NOT EFFECTIVE AND NEW STANDARDS (continued)

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administration costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

New and amended standards and interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Group has not received Covid-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

6 REVENUES

	<i>2021</i>	<i>2020</i>
	<i>SR'000</i>	<i>SR'000</i>
<i>Revenue from the contract with customers</i>		
Revenue from sale of buildings	245,218	319,405
Sale of paint and paint related products and services	20,001	24,476
	<u>265,219</u>	<u>343,881</u>
<i>Other revenue</i>		
Rental revenue from investment properties	202,982	189,639
	<u>468,201</u>	<u>533,520</u>

6.1 As per the contracts with the customers, there is no financing, non-cash consideration or consideration payable to customers involved in transaction price.

7 COST OF REVENUES

	<i>2021</i>	<i>2020</i>
	<i>SR'000</i>	<i>SR'000</i>
Direct cost	315,708	352,405
Employee salaries and benefits	65,136	87,603
Depreciation and amortisation	72,198	74,601
Others	43,372	47,259
	<u>496,414</u>	<u>561,868</u>

8 SELLING AND DISTRIBUTION EXPENSES

	<i>2021</i>	<i>2020</i>
	<i>SR'000</i>	<i>SR'000</i>
Employee salaries and benefits	15,347	23,780
Depreciation and amortization	611	956
Visa and license expenses	393	1,003
Travelling	260	674
Rent	237	412
Marketing fees	60	350
Others	1,141	2,188
	<u>18,049</u>	<u>29,363</u>

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

9 GENERAL AND ADMINISTRATION EXPENSES

	2021 SR'000	2020 SR'000
Employee salaries and benefits	35,981	37,947
Professional fees	6,359	15,368
Depreciation and amortization	2,026	4,150
Insurance	1,215	1,435
Utilities	847	1,268
Travelling	2,044	1,165
Allowance for expected credit losses, net	9,138	715
Rent	1,141	624
Others	4,236	9,934
	62,987	72,606

10 OTHER INCOME, NET

	2021 SR'000	2020 SR'000
Scrap sales	925	867
Net foreign currency exchange losses	(831)	(1,299)
Net gains /(losses) on disposal of property, plant and equipment and investment properties	79	(212)
Others, net	1,445	1,499
	1,618	855

11 FINANCE COST

	2021 SR'000	2020 SR'000
Conventional borrowings	2,869	4,040
Interest expense on lease liabilities (note 16)	2,693	3,042
Non-conventional borrowings	2,133	2,567
Discounting for non-current receivables	-	1,692
Bank charges and other costs	2,336	1,654
Unwinding of discount for provision for decommissioning (note 28)	637	667
	10,668	13,662

12 LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the 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:

	2021 SR'000	2020 SR'000
Loss for the year attributable to the shareholders of the parent Company	(130,439)	(158,323)
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	(2.17)	(2.64)
Loss for the year from continued operations attributable to the shareholders of the parent Company	(130,439)	(158,503)
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	(2.17)	(2.65)

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

13 PROPERTY, PLANT AND EQUIPMENT

	Freehold land SR '000	Buildings and residential houses (note 13.1) SR '000	Machinery and equipment SR '000	Furniture, fixtures and office equipment SR '000	Vehicles SR '000	Capital work-in- progress SR '000	Total SR '000
<i>Cost:</i>							
At 1 January 2020	2,250	172,690	75,284	25,727	42,454	42,922	361,327
Additions	-	2,540	988	630	7	-	4,165
Disposals	-	-	(808)	(2,202)	(705)	-	(3,715)
Transfer to inventories	-	(203)	-	-	-	-	(203)
Transfer on disposal of a subsidiary	-	(9,487)	(4,204)	(2,663)	(14,862)	-	(31,216)
Foreign currency translation	-	(1,071)	512	(23)	129	(841)	(1,294)
At 31 December 2020	2,250	164,469	71,772	21,469	27,023	42,081	329,064
<i>Accumulated depreciation and impairment:</i>							
At 1 January 2020	-	98,497	61,601	18,826	32,471	41,899	253,294
Charge for the year	-	5,805	3,561	2,504	1,327	-	13,197
Disposals	-	-	(961)	(2,046)	(649)	-	(3,656)
Transfer to inventories	-	(56)	-	-	-	-	(56)
Transfer on disposal of a subsidiary	-	(6,289)	(4,007)	(2,623)	(11,507)	-	(24,426)
Foreign currency translation	-	(249)	-	(12)	(8)	-	(269)
At 31 December 2020	-	97,708	60,194	16,649	21,634	41,899	238,084
<i>Net book amounts:</i>							
At 31 December 2020	2,250	66,761	11,578	4,820	5,389	182	90,980

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

13 PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land SR '000	Buildings and residential houses SR '000	Machinery and equipment SR '000	Furniture, fixtures and office equipment SR '000	Vehicles SR '000	Capital work-in- progress SR '000	Total SR '000
<i>Cost:</i>							
At 1 January 2021	2,250	164,469	71,772	21,469	27,023	42,081	329,064
Additions	-	58	33	325	-	250	666
Disposals	-	-	(348)	(397)	(547)	-	(1,292)
Transfer from inventories	-	94	-	-	-	-	94
Transfer to inventories	-	(395)	-	-	-	-	(395)
Foreign currency translation	-	197	-	22	8	-	227
At 31 December 2021	2,250	164,423	71,457	21,419	26,484	42,331	328,364
<i>Accumulated depreciation and impairment:</i>							
At 1 January 2021	-	97,708	60,194	16,649	21,634	41,899	238,084
Charge for the year	-	5,539	2,500	2,178	936	446	11,599
Disposals	-	-	(348)	(396)	(514)	-	(1,258)
Transfer to inventories	-	(137)	-	-	-	-	(137)
Foreign currency translation	-	197	-	10	6	-	213
At 31 December 2021	-	103,307	62,346	18,441	22,062	42,345	248,501
<i>Net book amounts:</i>							
At 31 December 2021	2,250	61,116	9,111	2,978	4,422	(14)	79,863

13.1 The Group production facilities are located on plots of land leased under various lease arrangements (note 16).

13.2 The accumulated impairment losses on property, plant and equipment as of 31 December 2021 amounts to SAR 46 million (31 December 2020: SAR 46 million).

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

13 PROPERTY, PLANT AND EQUIPMENT (continued)

13.3 Depreciation for the years has been allocated as follows:

	2021 SR'000	2020 SR'000
Cost of revenue	9,899	11,140
General and administration expenses	1,414	1,497
Selling and distribution expenses	286	560
	11,599	13,197

14 INVESTMENT PROPERTIES

	Freehold land SR '000	Buildings and residential houses SR '000	Capital work-in- progress SR '000	Total SR '000
<i>Cost:</i>				
At 1 January 2020	4,228	922,219	35,611	962,058
Additions	-	14,555	34,580	49,135
Disposal	-	(114)	(403)	(517)
Transfer to joint operations	-	(45,976)	-	(45,976)
Transfers	-	26,422	(26,422)	-
Transfer on disposal of a subsidiary	-	(1,651)	-	(1,651)
Foreign currency translation	-	2	-	2
At 31 December 2020	4,228	915,457	43,366	963,051
Additions	-	375	2,946	3,321
Disposal	-	(794)	-	(794)
Transfers	-	1,701	(1,701)	-
Transfer to inventories	-	(7,249)	-	(7,249)
Foreign currency translation	-	1	1	2
At 31 December 2021	4,228	909,491	44,612	958,331
<i>Accumulated depreciation and impairment:</i>				
At 1 January 2020	-	584,497	-	584,497
Charge for the year	-	53,029	-	53,029
Disposal	-	(102)	-	(102)
Transfer to joint operations	-	(29,898)	-	(29,898)
Transfer on disposal of a subsidiary	-	(742)	-	(742)
At 31 December 2020	-	606,784	-	606,784
Charge for the year	-	51,551	421	51,972
Disposal	-	(786)	-	(786)
Transfer to inventories	-	(5,082)	-	(5,082)
Foreign currency translation	-	1	1	2
At 31 December 2021	-	652,468	422	652,890
<i>Net book amounts:</i>				
At 31 December 2021	4,228	257,023	44,190	305,441
At 31 December 2020	4,228	308,673	43,366	356,267

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

14 INVESTMENT PROPERTIES (continued)

14.1 Direct operating expenses in respect of investment properties generating rental income for the year amounts to SR 63.7 million (2020: SR 62.02 million).

14.2 During 2020, the Group finalised joint arrangement in Algeria with a third party and transferred investment properties with a carrying value of SR 16 million. The Group re-recognised the investment properties transferred to the joint operations based on the % of ownership amounting to SAR 7.8 million. At the reporting date, balance of investment properties included SAR 7.5 million related to joint operation (2020: SAR 7.8 million).

14.3 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>SR '000</u>
2021			
KSA	Land Sterling Property Consultants	Registered valuers with Saudi Authority for Accredited Valuers	292,230
Dubai	Land Sterling Property Consultants	(Taqeem Saudi Arabia) and	2,371
Oman	Land Sterling Property Consultants	Member of Royal Institute of	1,434
Algeria	Land Sterling Property Consultants	Chartered Surveyors	9,966
			306,001
2020			
KSA	Land Sterling Property Consultants	Registered valuers with Saudi Authority for Accredited Valuers	361,240
Dubai	Land Sterling Property Consultants	(Taqeem Saudi Arabia) and	2,809
Oman	Land Sterling Property Consultants	Member of Royal Institute of	1,570
Algeria	Land Sterling Property Consultants	Chartered Surveyors	10,037
			375,656

14.4 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 neighbourhood, except for the properties at Dubai which were valued using cost approach - depreciated replacement cost method (DRC). 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. DRC is based on an estimate of the current gross replacement costs of improvements less allowance for physical deterioration and all relevant forms of obsolescences and optimisation. Above fair value does not include assets under construction.

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

	<i>Level 1</i> SR '000	<i>Level 2</i> SR '000	<i>Level 3</i> SR '000	Total SR '000
2021	-	-	306,001	306,001
2020	-	-	375,656	375,656

14.6 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

15 INTANGIBLE ASSETS

	<i>Licenses</i> <i>SR'000</i>	<i>Goodwill</i> <i>SR'000</i>	<i>Computer software</i> <i>SR'000</i>	<i>Total</i> <i>SR'000</i>
<i>Cost:</i>				
At 1 January 2020	23,829	6,416	9,389	39,634
Additions	-	-	849	849
Disposal	-	-	(128)	(128)
Transfer on disposal of a subsidiary	-	-	(305)	(305)
At 31 December 2020	23,829	6,416	9,805	40,050
Additions	-	-	7	7
At 31 December 2021	23,829	6,416	9,812	40,057
<i>Accumulated amortisation and impairment:</i>				
At 1 January 2020	14,848	4,962	5,316	25,126
Charge for the year	2,150	-	710	2,860
Disposal	-	-	(120)	(120)
Impairment (note 15.1)	6,831	1,403	-	8,234
Transfer on disposal of a subsidiary	-	-	(280)	(280)
At 31 December 2020	23,829	6,365	5,626	35,820
Charge for the year	-	-	907	907
At 31 December 2021	23,829	6,365	6,533	36,727
<i>Net carrying value</i>				
At 31 December 2021	-	51	3,279	3,330
At 31 December 2020	-	51	4,179	4,230

15.1 Impairment test for CGU containing licenses and goodwill

Substantially, the 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 which was approved by the management. As a result of this exercise performed in 2020, the management has recorded an impairment of SR 1.4 million related to goodwill and SR 6.8 million related to licenses in the consolidated statement of profit or loss for the year ended 31 December 2020. On the cash flow projections, the management assumed an average annual growth rate of 5% for the next five years and thereafter which was in line with the short-term growth rate for the paint industry.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

16 LEASES

16.1 Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period.

	<i>Land</i> <i>SR'000</i>	<i>Equipment</i> <i>SR'000</i>	<i>Total</i> <i>SR'000</i>
<i>Cost:</i>			
Amount as of 1 January 2020	78,805	144	78,949
Additions	2,098	-	2,098
Remeasurement	(14)	-	(14)
Transfer on disposal of a subsidiary	(2,600)	-	(2,600)
At 31 December 2020	78,289	144	78,433
Remeasurement	(96)	-	(96)
Lease termination	(659)	-	(659)
At 31 December 2021	77,534	144	77,678
<i>Accumulated amortisation:</i>			
At 1 January 2020	10,379	36	10,415
Depreciation expense	10,585	36	10,621
Transfer on disposal of a subsidiary	(612)	-	(612)
At 31 December 2020	20,352	72	20,424
Depreciation expense	10,358	-	10,358
At 31 December 2021	30,710	72	30,782
<i>Net carrying value</i>			
At 31 December 2021	46,824	72	46,896
At 31 December 2020	57,937	72	58,009

16.2 Set out below are the carrying amounts of lease liabilities and the movements during the period:

	<i>Lease liabilities</i>	
	<i>SR'000</i> <i>2021</i>	<i>SR'000</i> <i>2020</i>
At 1 January	56,523	61,226
Additions to lease liabilities	-	2,098
Interest expense (note 11)	2,693	3,042
Remeasurement	(809)	(18)
Transfer on disposal of subsidiary	-	(2,041)
Payments	(9,405)	(7,784)
At 31 December	49,002	56,523
Current portion of lease liabilities	14,281	13,014
Non-current portion of lease liabilities	34,721	43,509

Maturity analysis of lease liabilities have been disclosed in the note 36 of these consolidated financial statements.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

16 LEASES (continued)

16.3 The following are the amounts recognised related to the right-of-use assets and lease liabilities in the consolidated statement of profit or loss:

	2021 SR'000	2020 SR'000
Depreciation expense of right-of-use assets	10,358	10,621
Interest expense on lease liabilities	2,693	3,042
Expense relating to short-term leases and low value assets	4,593	9,654
	17,644	23,317

17 INVENTORIES

	2021 SR'000	2020 SR'000
Raw materials	75,329	55,026
Work in progress	60,858	50,989
Finished goods	50,319	52,195
	186,506	158,210
Less: provision for obsolete inventory	(45,139)	(35,093)
	141,367	123,117

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

	2021 SR'000	2020 SR'000
At the beginning of the year	35,093	33,502
Provision for the year	10,046	4,091
Reversal during the year	-	(49)
Transfer on disposal of a subsidiary	-	(2,451)
	45,139	35,093

At the reporting date, the Group re-assessed the realisable value of inventories and as a result recorded an additional provision of SR 8.6 million (2020: SR 4 million) in the consolidated statement of profit or loss by taking into consideration the age and condition of these inventories.

18 CONTRACT ASSETS

	2021 SR'000	2020 SR'000
Cost and estimated earnings	313,670	248,286
Less: billings and recognised losses	(267,620)	(204,522)
	46,050	43,764

The contract assets increased in the current year relates to the new contracts the Group has entered into with its customers, for the construction of modular building and camps. There are no expected credit losses against the contract assets maintained as of 31 December 2021 (2020: expected credit loss of SR 2.1 million).

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

19 TRADE RECEIVABLES

	2021			2020		
	<i>Receivables from contracts with customers</i>			<i>Receivables from contracts with customers</i>		
	<i>Rental receivables</i>	<i>Total</i>		<i>Rental receivables</i>	<i>Total</i>	
	SR'000			SR'000		
Billed	168,910	76,733	245,643	210,190	61,228	271,418
Retentions receivable	25,179	51	25,230	27,003	51	27,054
Allowance for expected credit losses	(73,691)	(9,317)	(83,008)	(78,731)	(3,758)	(82,489)
	120,398	67,467	187,865	158,462	57,521	215,983
Less: current portion	(88,903)	(67,467)	(156,370)	(126,967)	(57,521)	(184,488)
Non current portion (note 19.1)	31,495	-	31,495	31,495	-	31,495

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 allowance for expected credit losses are as follows:

	2021 SR'000	2020 SR'000
At the beginning of the year	82,489	81,058
Provision for the year	9,161	5,786
Reversal during the year	(8,642)	(3,379)
Write-off during the year	-	(502)
Exchange differences	-	(474)
At the end of the year	83,008	82,489

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. However, following extended discussions and negotiations between the customer and Group, the customer agreed to execute legal documentation acknowledging the debt and giving the Company a claim over the assets of the customer's camp in Angola, which would allow the Company the right to take a secondary charge over these assets. Accordingly, the Group and customer withdraw from litigation proceedings in Houston, Texas, USA and filed its claim against the customer's camp and related assets with the relevant court in Angola and will proceed with next steps in accordance with local Angolan laws. At the reporting date, the decision on lawsuit is still pending.

Total outstanding balance from this customer included in the non-current portion amounted to SR 86.9 million as of 31 December 2021 (2020: SR 86.9 million). In the light of the above pending litigation and related outcome, the management of the Group has recorded an allowance against this balance amounting to SR 57.2 million (2020: SR 57.2 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.

19.2 Refer to note 36.2 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

20 INVESTMENT IN ASSOCIATE

The Group has 49% interest in RSHM which is accounted for using the equity method in consolidated financial statements. Below is the summarized financial information of the Group's investment in the associate:

Summarised statement of financial position for associate

Percentage of ownership

	RSHM	
	49%	
	2021	2020
	SR'000	SR'000
Current assets	5,817	6,222
Non current assets	12,585	15,572
Current liabilities	(10,481)	(11,648)
Group's carrying amount of investment	7,921	10,146

Carrying value of the investment in associate includes goodwill attributable to associate.

Summarised statements of comprehensive income for associates

	RSHM	RSHM	RSHP	Total
	2021		2020	
	SR'000		SR'000	
Revenue	641	3,394	28,767	32,161
Cost of revenue	(3,750)	(6,929)	(21,491)	(28,420)
Other income	(228)	1,163	(175)	988
Administrative expenses	(1,153)	(2,904)	(4,643)	(7,547)
Other operating expenses	(30)	(315)	(70)	(385)
Finance charges	-	-	(100)	(100)
Income tax	-	-	(986)	(986)
Finance income	(21)	47	15	62
Total comprehensive (loss)/profit	(4,541)	(5,544)	1,317	(4,227)
Group's share of (loss)/profit for the year	(2,225)	(2,717)	263	(2,454)

At 31 December 2020, the Group disposed off its remaining interest (20%) in RSHP for a consideration of SR 3.75 million. As a result, the equity interest in RSHP reduced to nil (refer note 1 for further details).

21 PREPAYMENTS AND OTHER RECEIVABLES

	2021	2020
	SR'000	SR'000
Amounts due from related parties (note 32)	12,128	22,642
Margin deposits	8,857	1,610
Prepaid expenses and deposits	3,805	11,103
Advance and valued added tax for the foreign subsidiaries	1,106	2,409
Advances to employees	382	1,731
Consideration receivable for sale of subsidiary (note 1.1)	-	13,027
Prepaid short-term lease rentals	-	324
Others	23,218	6,059
	49,496	58,905

Balance amount due from related parties includes SR 3 million (2020: SR 13.8 million including the net of impact of time value of money for SR 832 thousand). Terms and conditions for related party transactions and balances are disclosed under note 32 of these consolidated financial statements.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

22 CASH AND CASH EQUIVALENTS

	2021 SR'000	2020 SR'000
Bank balances	5,599	31,122
Cash in hand	239	472
	5,838	31,594

23 SHARE CAPITAL

The authorised, issued and paid up share capital of the Company as at 31 December 2021 and 2020 was comprised of 60,000,000 shares stated at Saudi Riyals 10 per share.

24 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.

At 31 December 2020, the Board of Directors resolved to transfer the statutory reserves in order to absorb the accumulated losses of the Group therefore, balance was transferred in full to the accumulated losses.

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:

Name	Principal activities	Country of incorporation	2021	2020
SARL Red Sea Housing Services Algeria Limited ("RSA")	Rental/sales of non-concrete building	Algeria	2%	2%
Premier Paints Company ("PPC")	Manufacturing and trading paints	Saudi Arabia	19%	19%

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

Summarised statement of profit or loss and other comprehensive income:

	31 December 2021 SR'000		31 December 2020 SR'000	
	RSA	PPC	RSA	PPC
Revenues	7,571	20,204	5,851	26,178
Loss for the year	(2,958)	(9,807)	(1,992)	(18,860)
Other comprehensive (loss)/income	-	-	-	108
Total comprehensive loss	(2,958)	(9,807)	(1,992)	(18,752)
Attributable to non-controlling interests	(59)	(1,856)	(40)	(3,564)

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

25 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

Summarised statement of financial position:

	31 December 2021		31 December 2020	
	<i>SR'000</i>		<i>SR'000</i>	
	<i>RSA</i>	<i>PPC</i>	<i>RSA</i>	<i>PPC</i>
Current assets	12,035	6,605	13,962	9,419
Current liabilities	(3,244)	(3,280)	(2,971)	(31,987)
Net current assets/(liabilities)	8,791	3,325	10,991	(22,568)
Non-current assets	11,106	6,053	11,995	8,127
Non-current liabilities	-	(3,415)	-	(53,559)
Net non-current assets/(liabilities)	11,106	2,638	11,995	(45,432)
	31 December 2021		31 December 2020	
	<i>SR'000</i>		<i>SR'000</i>	
	<i>RSA</i>	<i>PPC</i>	<i>RSA</i>	<i>PPC</i>
Cash flows (used in)/from operating activities	5,468	(2,257)	5,468	(2,257)
Cash used in investing activities	(3,838)	(47)	(3,838)	(47)
Cash from/(used in) financing activities	-	2,431	-	2,431
Net increase in cash and cash equivalents	1,630	127	1,630	127

26 INTEREST BEARING LOANS AND BORROWINGS

	2021	2020
	<i>SR'000</i>	<i>SR'000</i>
Interest bearing short-term borrowings (note 26.1)	118,656	79,273
Current portion of long-term borrowings (note 26.2)	21,429	26,365
Total short-term and current portion of long-term borrowings	140,085	105,638
Non-current portion of long-term borrowing (note 26.2)	-	36,608
Total borrowings	140,085	142,246

26.1 At 31 December 2021 and 2020, short-term borrowings represent bank loans obtained from various commercial banks and bear financial charges at prevailing market rates which are based on Saudi inter-bank offer rates. These borrowings are denominated in SR. Total unused credit facilities available to the Group at 31 December 2021 were approximately SR 21.8 million (2020: SR 63.0 million) principally representing overdrafts, short-term loans and re-financing of invoices and letters of credit. Certain credit facility agreements contain covenants requiring maintenance of certain financial ratios and other matters. The short term borrowings are secured by promissory notes, inventories and assignment of contract proceeds.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

26 INTEREST BEARING LOANS AND BORROWINGS (continued)

- 26.2 Long term borrowings represent loans obtained from commercial banks in the Kingdom of Saudi Arabia. These borrowings are denominated in Saudi Riyal and bear financial charges of SIBOR plus fixed margin between 1.25% and 3%. The aggregate maturities of these borrowings, based on their respective repayment schedules, are spread through 2022 and 2023. These borrowings are principally secured by promissory notes and assignment of contract proceeds. The long-term borrowing agreements contain covenants requiring the Group to main certain financial ratios, retention of certain proportion of profits in the business, lenders' prior approval for change in ownership structure of the Company and certain other matters.

As of 31 December 2021, the Group was not in compliance with a covenant relates to current ratio which is an event of default as per the borrowing agreements. Consequently, principle amount repayable as of 31 December 2021 became repayable on demand and were classified under current liabilities in the statement of financial position. The non-compliance of a covenant was due to the upfront cost incurred on recent projects awarded in KSA which has resulted in higher trade payables and accruals. The Group is in negotiations with the lending institutions for specific project based long-term financing to refinance initial expenses incurred by the Group.

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

	2021	2020
	SR'000	SR'000
2021	-	105,638
2022	140,085	31,465
2023	-	5,143
	140,085	142,246

- 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>Premier Paints Company</i>	<i>Total</i>
	SR ' 000		
Conventional borrowings	24,995	8,608	33,603
Tawarruq	106,482	-	106,482
At 31 December 2021	131,477	8,608	140,085
Conventional borrowings	62,259	9,273	71,532
Tawarruq	70,714	-	70,714
At 31 December 2020	132,973	9,273	142,246

Premier Paints Company's ("PPC") short-term loan agreement is subject to covenants, whereby the PPC is required to meet certain key financial ratios. PPC did not maintain the required tangible net worth ratio as defined in the facility agreement. However, the loan is secured by the corporate guarantees issued by the Parent Company and minority Partner of PPC and has not been recalled by the banks. The outstanding balance of PPC short-term loan also presented as a current liability as at the reporting date.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

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 2021 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:

	2021	2020
Discount rate	2.36%	1.6%
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:

	2021 SR'000	2020 SR'000
Current service cost	3,947	4,266
Interest cost on benefit obligation	465	842
Net benefit expense	4,412	5,108

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

	2021 SR'000	2020 SR'000
At the beginning of the year	32,997	34,495
Net benefit expense	4,412	5,108
Benefits paid	(8,256)	(8,000)
Remeasurement loss on employees' defined benefit liabilities	2,178	1,394
At the end of the year	31,331	32,997

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

	2021 SR'000	2020 SR'000
Actuarial losses arising from changes in financial assumptions	(1,370)	2,515
Experience adjustments	3,548	(1,121)
At the end of the year	2,178	1,394

27.4 Breakup of the employee benefit obligations by geographic segment:

	Saudi Arabia SR'000	UAE SR'000	Ghana SR'000	Algeria SR'000	Other SR'000	Total SR'000
2021	21,627	8,448	1,213	-	43	31,331
2020	19,723	8,153	4,438	362	321	32,997

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

27 EMPLOYEES' DEFINED BENEFIT LIABILITIES (continued)

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

	<i>Increase/ (decrease)</i>	<i>2021 SR '000</i>	<i>2020 SR '000</i>
Discount rate	1.00% (1.00%)	(1,821) 2,026	(1,978) 2,187
Expected rate of salary increase	1.00% (1.00%)	1,858 (1,701)	2,000 (1,846)
Retirement age	1 Year (1 Year)	(769) 729	(703) 907

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:

	<i>2021 SR '000</i>	<i>2020 SR '000</i>
Within the next 12 months (next annual reporting period)	4,077	4,575
Between 2 and 5 years	11,269	10,724
Over 5 years	21,248	21,419
Total expected payments	36,594	36,718

The average duration of the defined benefit plan obligation at the end of the reporting period is 6.15 years (31 December 2020: 6.7 years).

During the year, the Group have contributed SAR 4.3 million (2020: SAR 3.1 million) into the general organisation of social insurance ("GOSI") for its Saudi national staff.

28 OTHER NON-CURRENT LIABILITIES

Other non-current liabilities represents the provision for decommissioning costs related to liabilities for restoration work or land restoration required for dismantling of investment properties used to generate rental revenue. The expected dates for usage of the provision are spread in years 2019 through 2026. Movement in the provision for decommissioning costs was as follows:

	<i>2021 SR'000</i>	<i>2020 SR'000</i>
At the beginning of the year	25,392	26,236
Unwinding of discount charge for the year	637	667
Amount utilised during the year	-	(1,511)
At the end of the year	26,029	25,392
Less: current portion (note 30)	(317)	(317)
	25,712	25,075

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

29 TRADE PAYABLES

	2021 SR'000	2020 SR'000
Trade accounts payables	188,339	136,617
Due to related parties (note 32)	6,563	1,543
	194,902	138,160

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

	2021 SR'000	2020 SR'000
Accrual for project operation and catering costs	124,962	110,018
Employee salaries and benefits	17,425	16,276
Accrued consultancy charges	8,522	9,778
Accrued indirect taxes	876	7,461
Unearned rental revenue	786	-
Provision for assurance type warranties	639	765
Provision for decommissioning costs (note 28)	317	317
Other accrued expenses	25,029	34,079
	178,556	178,694

31 ZAKAT AND INCOME TAX

The major components of zakat and income tax expense for the year ended 31 December 2021 and 2020 are:

Consolidated statement of profit or loss

	2021 SR'000	2020 SR'000
Zakat	11,788	8,664
Income tax expense	113	-
	11,901	8,664

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

	Zakat	Current tax	Total	Zakat	Current tax	Total
	31 December 2021 SR '000			31 December 2020 SR '000		
At the beginning of the year	20,650	3,319	23,969	18,719	4,257	22,976
Current year (credit)/provision	11,788	113	11,901	8,664	-	8,664
Transfer on disposal of a subsidiary	-	-	-	-	(890)	(890)
Payments during the year	(5,895)	(18)	(5,913)	(6,733)	(48)	(6,781)
At 31 December	26,543	3,414	29,957	20,650	3,319	23,969

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

31 ZAKAT AND INCOME TAX (continued)

31.2 Zakat

(i) Zakat charge for the year consist of :

	2021 SR'000	2020 SR'000
Provision for the year	4,206	5,100
Prior period adjustment	7,582	3,564
Charge for the year	11,788	8,664

The provision for the year is based on zakat base of the Parent 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 Parent Company and its wholly owned subsidiary

The zakat assessments of the Company and its wholly owned Saudi subsidiary as a whole have been agreed with the Zakat, Tax and Customs Authority ("the ZATCA") up to 2010. The zakat declarations until years 2020 have been filed with the ZATCA.

During 2020, the ZATCA had issued an assessment for the years 2014 through 2017 amounting to SR 67.1 million for the Company and its wholly owned subsidiaries. The Company filed an appeal against the ZATCA assessment for the said period. During 2021, the ZATCA issued a revised assessment for the years 2014 through 2017 amounting to SR 62.8 million for the Company and its wholly owned subsidiaries. The Company has escalated the appeal against the ZATCA assessments for the above mentioned period with the General Secretariat of Tax Committees ("GSTC") and the case is still under review by the committees.

Further, during the year, the ZATCA issued an assessment for the years 2019 and 2020 amounting to SR 11.6 million for the Company and its wholly owned subsidiaries. Subsequent to the reporting date, the management of the Group submitted an appeal with ZATCA on the assessment raised.

The zakat assessment for the years 2011 to 2013 and for 2018 have not yet being raised by the ZATCA. Based on management's best estimate, the management believes that the provision recognised as of 31 December 2021 with respect of the assessments raised is appropriate and no additional provision is required.

b) Partially owned subsidiaries

Premier Paints Company

During 2018, Premier Paints Company received Zakat, tax and WHT assessments for the years 1999 to 2014 amounting to SR 2.6 million, which was subsequently reduced to SR 2.59 million and the Company filled an appeal with GSTC on the revised assessment. During the year, ZATCA issued amnesty scheme whereby, the ZATCA waived the delay penalties and fines and the Company settled WHT liability of SR 0.95 million and agreed to settled SR 1.22 million of zakat liability on installments basis.

Further, during the year, PPC received an assessment for the years 2017 and 2018 with additional zakat liability of SR 0.8 million. The management of PPC has recognized the provision against the assessment raised.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

31 ZAKAT AND INCOME TAX (continued)

31.3 Income Tax

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

	2021 SR '000	2020 SR '000
Provision and charge for the year	113	-

Income tax provision is provided for in accordance with fiscal authorities in which the Group's subsidiaries operate outside the Kingdom of Saudi Arabia. No income tax provided during the year due to the taxable losses.

(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. RSG received tax assessment for years from 2011 to 2016 amounting to SR 4.7 million. RSG filed an appeal against this amount and settled SR 1.5 million in 2018, however the assessment yet to be finalised. RSG is currently under a tax audit for the 2017-2020 years of assessment.

31.4 Deferred Tax

The Group has not recognized net deferred tax asset of SR 11.13 million (2020: SR 13.8 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 of Dabbagh Group Holding Company Limited and its affiliated entities (collectively the "Dabbagh Group"), majority shareholder of the Parent 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

32 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

32.1 Significant transactions with related parties' included in the consolidated statement of profit and loss are as follows:

	2021	2020
Nature of transaction	SR'000	SR'000
Expenses paid on behalf of associates	456	3,547
Other income	-	938
Payment for land rentals	883	883
Expenses paid by the ultimate parent company on behalf of the Group	290	338

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

Amount due from related parties presented under prepayments and other receivables (note 21)

	2021	2020
	SR'000	SR'000
Petromin Corporation	3,039	13,767
Red Sea Housing Malaysia SDN BHD	9,089	8,875
	12,128	22,642

Amount due to related parties presented under trade payables (note 29)

	31 December 2021	31 December 2020
	SR'000	SR'000
Dabbagh Group Holding Company Limited	1,074	784
National Scientific Company	30	15
Sherwin-Williams Protective and Marine Coatings	5,459	744
	6,563	1,543

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

	2021	2020	2021	2020
	SR'000	SR'000	SR'000	SR'000
	Members of Board of Directors		Key Management	
Short-term employee benefits	-	-	8,679	8,974
End-of service employee benefits	-	-	453	323
Board of directors' fees	1,703	1,202	-	-
	1,703	1,202	9,132	9,297

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

33 CONTINGENCIES AND COMMITMENTS

As at 31 December 2021, the Group had capital commitments of SR 45.1 million (2020: SR 1.5 million). Also at December 31 the Group had the following outstanding contingencies:

	<i>2021</i>	<i>2020</i>
	<i>SR'000</i>	<i>SR'000</i>
Letters of guarantee	84,591	97,139
Letters of credit	457	347

34 OPERATING LEASES

The Group leased out various residential houses under operating lease agreements. Rental income from such leases for the year ended 31 December 2021 amounted to SR 201.9 million (2020: SR 189.6 million).

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

	<i>2021</i>	<i>2020</i>
	<i>SR'000</i>	<i>SR'000</i>
Within one year	198,121	187,000
After one year but not more than five	381,440	240,000
	579,561	427,000

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

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 consolidated financial statements.

Business segments

	31 December 2021				31 December 2020			
	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			
	(Note 1.1)							
Revenue:								
Total segment revenue	245,218	202,982	20,204	468,404	319,405	189,639	26,177	535,221
Inter-segment revenue elimination	-	-	(203)	(203)	-	-	(1,701)	(1,701)
Revenue from external customers	245,218	202,982	20,001	468,201	319,405	189,639	24,476	533,520
Timing of revenue recognition:								
At point in time	126,851	-	20,001	146,852	190,720	-	24,476	215,196
Over time	118,367	202,982	-	321,349	128,685	189,639	-	318,324
	245,218	202,982	20,001	468,201	319,405	189,639	24,476	533,520
(Loss)/profits before finance cost, finance income, depreciation & amortization and zakat and income tax	(151,768)	122,388	(5,639)	(35,019)	(103,064)	67,358	(16,503)	(52,209)
Impairment	-	-	-	-	-	-	(8,234)	(8,234)
Finance cost	(4,275)	(3,267)	(3,126)	(10,668)	(5,445)	(5,689)	(2,528)	(13,662)
Finance income	58	-	-	58	350	-	-	350
Depreciation & amortisation	(10,816)	(62,775)	(1,246)	(74,837)	(22,227)	(53,029)	(4,451)	(79,707)
(Loss)/profit before zakat and income tax	(166,801)	56,346	(10,011)	(120,466)	(130,386)	8,640	(31,716)	(153,462)
Income tax	-	(113)	-	(113)	-	-	-	-
Zakat	(3,722)	(7,226)	(840)	(11,788)	(4,538)	(4,741)	615	(8,664)
Segment (loss)/profit from continued operations	(170,523)	49,007	(10,851)	(132,367)	(134,924)	3,899	(31,101)	(162,126)

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

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 2021				At 31 December 2020			
	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	471,812	466,342	13,819	951,973	500,664	523,085	17,344	1,041,093
Total liabilities	397,147	233,118	35,119	665,384	412,515	175,189	32,563	620,267

(Note 1.1)

During the year ended 31 December 2021, approximately 48% of the total revenues from non-concrete residential and commercial buildings segment were derived from 5 customers (2020: approximately 67% from 7 customers). During the year, approximately 72% of the total revenues from rental segment were derived from 5 customers (2020: approximately 60% from 3 customers).

The Group's operations are conducted in Saudi Arabia, UAE, Ghana, 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 2021					
	Saudi Arabia	UAE	Ghana	Algeria	Others	Total
	SR '000					
Total segment revenue	332,794	120,881	15,452	3,925	663	473,715
Inter-segment revenue elimination	(203)	(5,311)	-	-	-	(5,514)
Revenue from external customers	332,591	115,570	15,452	3,925	663	468,201
Segment loss from continued operations	(78,737)	(39,017)	(10,581)	(3,430)	(602)	(132,367)
	31 December 2020					
	Saudi Arabia	UAE	Ghana	Algeria	Others	Total
	SR '000					
Total segment revenue	396,099	112,562	22,642	5,850	2,886	540,039
Inter-segment revenue elimination	(1,701)	(4,818)	-	-	-	(6,519)
Revenue from external customers	394,398	107,744	22,642	5,850	2,886	533,520
Segment loss from continued operations	(96,109)	(52,806)	(16,295)	(2,866)	5,950	(162,126)

Red Sea International Company (A Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

35 SEGMENTAL INFORMATION (continued)

	31 December 2021					
	Saudi Arabia	UAE	Ghana	Algeria	Others	Total
	SR '000					
Non-current assets						
Investment in an associate	216	7,705	-	-	-	7,921
Property, plant and equipment	25,586	31,201	19,898	2,992	186	79,863
Investment properties	295,535	1,283	-	7,485	1,138	305,441
Intangible assets	2,672	646	7	5	-	3,330
Total assets and liabilities						
Total assets	719,482	131,231	74,545	23,141	3,574	951,973
Total liabilities	556,964	91,961	12,479	3,244	736	665,384

	31 December 2020						
	Saudi Arabia	UAE	Ghana	Papua New	Algeria	Others	Total
	SR '000						
Non-current assets							
Investment in an associate	-	10,146	-	-	-	-	10,146
Property, plant and equipment	31,990	33,663	21,887	-	3,255	185	90,980
Investment properties	345,230	1,803	-	-	8,002	1,232	356,267
Intangible assets	3,294	920	8	-	8	-	4,230
Total assets and liabilities							
Total assets	759,577	164,219	80,378	-	25,956	10,963	1,041,093
Total liabilities	494,941	108,764	12,630	-	2,971	961	620,267

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

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.

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 borrowings with floating interest rates. The Group manages its interest rate risk by continuously monitoring movements in the interest rates.

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</i>
		<i>SR '000</i>
2021	-100	(269)
	+100	269
2020	-100	(481)
	+100	481

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 Market risk (continued)

36.1 (c) Foreign currency risk (continued)

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.

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.

Currency	2021		2020	
	Change in currency rate %	Effect on equity SR'000	Change in currency rate %	Effect on equity SR'000
PGK	10	0.11	10	847
OMR	10	135	10	150
MYR	10	-	10	-
LYD	10	65	10	19
MZN	10	24	10	22

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:

	2021 SR'000	2020 SR'000
Bank balances	5,599	31,122
Accounts receivable	187,865	215,983
Contract assets	46,050	43,764
Other receivables	44,585	45,069
	284,099	335,938

The Group seeks to manage its credit risk with respect to customers by setting credit limits 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 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 2021, the Group had 4 customers (2020: 4) that owed it more than SR 124 million in total and accounted for approximately 51% (2020: 62%) of all the receivables and contract assets outstanding.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

36 FINANCIAL RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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.

Set out below is the information about the credit risk exposure at reporting date on the Group's accounts receivables:

	<i>Trade receivables</i>					<i>Total</i>
	<i>Current</i>	<i>30 - 90 days</i>	<i>91 - 180 days</i>	<i>181 - 360 days</i>	<i>> 360 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>
31 December 2021	44,371	39,869	39,018	29,041	118,574	270,873
31 December 2020	57,160	64,269	34,276	15,754	127,013	298,472

Based on a provision matrix, the Group's expected credit losses at 31 December 2021 against its trade receivables exposed to credit risk amounted to SR 83 million (2020: SR 82.5 million). In 2021, the Group recognised an amount of SR 9.2 million as allowance for expected credit losses in its statement of profits or loss (2020 : SR 5.8 million).

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.

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

36 FINANCIAL RISK MANAGEMENT (continued)

36.3 Liquidity risk (continued)

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 2021

	<i>Less than 1 year</i>	<i>1 to 5 years</i>	<i>> 5 years</i>	<i>Total</i>
	<i>SR '000</i>			
Interest bearing loans and borrowings	136,170	5,297	-	141,467
Lease liabilities	15,245	26,125	15,750	57,120
Trade and other payables	194,902	-	-	194,902
	346,317	31,422	15,750	393,489

Year ended 31 December 2020

	<i>Less than 1 year</i>	<i>1 to 5 years</i>	<i>> 5 years</i>	<i>Total</i>
	<i>SR'000</i>			
Interest bearing loans and borrowings	105,173	38,338	-	143,511
Lease liabilities	14,058	27,641	18,382	60,081
Trade and other payables	138,160	-	-	138,160
Other liabilities	-	-	-	-
	257,391	65,979	18,382	341,752

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>Total</i>
	<i>SR'000</i>			
At 1 January 2020	43,939	42,691	120,922	207,552
Cash flows	(7,331)	(16,326)	(41,649)	(65,306)
31 December 2020	36,608	26,365	79,273	142,246
Cash flows	(36,608)	(4,936)	39,383	(2,161)
31 December 2021	-	21,429	118,656	140,085

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2021

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.

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 0.7 to 3.0 and leverage ratio within 0.5 to 1 (2020: total gearing ratio within 0.7 to 3 and leverage ratio within 0.5 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, contract assets and other current assets which are measure 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 2021 was assessed to be insignificant.

39 SUBSEQUENT EVENTS AND COVID 19 ASSESSMENT

The global economy is recovering faster than was expected at the beginning of the year, and the number of people vaccinated against COVID-19 is increasing. In addition, protective measures and contact restrictions are relaxed. Uncertainties remain, however, with the prospect of further COVID outbreaks as a result of new variants, for instance.

In response to the spread of the Covid-19 the management had proactively assessed its impacts on Group's operations and took series of preventive measures to ensure the health and safety of its employees, customers and the wider community as well as to ensure the continuity of supply of its products throughout its markets. Based on this assessment, no significant adjustments were required in the financial statements for the year ended 31 December 2021.

Red Sea International Company (A Saudi Joint Stock Company)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

At 31 December 2021

39 SUBSEQUENT EVENTS AND COVID 19 ASSESSMENT (continued)

The COVID-19 pandemic remains an evolving situation, which may lead to increased risks concerning value creation and asset valuation, such as potential impairment of non-current assets, trade receivables and contract assets and inventories. The uncertainties in the global economy may adversely impact suppliers, customers, and other business partners, which may interrupt supply chain, limit the ability to collect receivables and require other changes to operations. Management will continue to closely monitor the effects of the pandemic, including the impact on non-current assets, inventory valuations, trade receivable and contract assets during 2022 and beyond.

In the opinion of the Company's management, there have been no significant subsequent events since the year ended 31 December 2021 that would have a material impact on the financial position of the Company as reflected in these financial statements.

**RED SEA INTERNATIONAL COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
31 DECEMBER 2022**

Red Sea International Company (A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS TO SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY)

1/6

Opinion

We have audited the consolidated financial statements of Red Sea International Company, a Saudi Joint Stock Company (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, 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 2022, 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 Chartered and Professional 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 the International Code of Ethics for Professional Accountants (including International Independence Standards) that is endorsed in the Kingdom of Saudi Arabia that is relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with this Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2.1 in the consolidated financial statements, which indicates that the Company incurred a net loss of SR 197.8 million during the year ended 31 December 2022 and, as of that date, the accumulated losses of the Company amounting to SR 172.5 million which represent 57% of the Company's capital. Further, as of 31 December 2022, the Company's current liabilities exceeded its total assets by SR 201.5 million. As stated in Note 2.1, these events or conditions, along with other matters as set forth in Note 2.1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.



**INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS
TO SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY
(A SAUDI JOINT STOCK COMPANY) (continued)**

2/6

Key Audit Matters (continued)

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.

Key audit matter	How our audit addressed the key audit matter
RECOGNITION OF EXPECTED CREDIT LOSSES UNDER IFRS 9 AND IMPAIRMENT OF DISPUTED TRADE RECEIVABLES At 31 December 2022, the Group has gross outstanding receivables of SR 316.9 million (2021: SR 300.8 million) related to trade receivables and contract assets. Out of which an outstanding receivable of SR 88.7 million relates to a customer in Angola. At 31 December 2022, an allowance for expected credit losses amounting to SR 119.03 million (2021: SR 83 million) is maintained out of which an amount of SR 88.7 million (2021: SR 55.5 million) pertains to the above customer. 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 allowance for expected credit losses and in the preparation of ECL model. <i>Refer to the notes 4, 18, 19 and 36 of the consolidated financial statement for the accounting policy and other related information.</i>	We performed the following procedures to address the key audit matter: - We obtained and tested the expected credit loss (ECL) model prepared by the management. - We evaluated the reasonableness of the significant judgments used by the management to develop loss rates and final ECL allowance using the loss rates. - We also verified the data inputs used in assessing the loss rates. - We evaluated forward-looking information, wherever applicable, that reflects the impact of future events on expected credit losses. - With respect to the customer with SR 88.7 million outstanding receivable, we held discussions with the legal counsel for the expected outcome of the legal proceedings and their effect on allowance for expected credit losses. - We assessed the adequacy of disclosures presented in the consolidated financial statements.



INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS 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
IMPAIRMENT OF NON-FINANCIAL ASSETS As at 31 December 2022, the carrying value of the Group's property, plant and equipment, investment properties, intangible assets and right-of-use assets amounted to SR 68.58 million, SR 262.97 million, SR 2.3 million and SR 43.18 million, respectively. For the purpose of the financial statements for the year ended 31 December 2022, the management assessed the losses incurred by the Group and market condition as impairment indicators and accordingly, performed impairment assessment. Based on impairment assessment as of 31 December 2022, no impairment has been identified for the current year as the recoverable amount is higher than the carrying value of related assets. This assessment required management to use significant judgment over the assumptions and estimations in determining the recoverable amount. The significant assumptions and estimations used include, among others, annual revenue growth, forecasted gross margins and weighted average cost of capital. Due to aforesaid facts, we determined that this is a key audit matter. <i>Refer to the notes 4, 13, 14, 15 and 16 of the consolidated financial statement for the accounting policy and other related information.</i>	We performed the following procedures to address the key audit matter: - We reviewed the management's procedures in identifying impairment indicators. - We obtained management's impairment calculations and related key assumptions including revenue forecasts, basis of selection of growth rates and discount rates. - We assessed the appropriateness of the valuation model and tested significant 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. - 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. Our internal valuation specialists were involved to assess the reasonableness of the discount rate used and overall impairment computation. - We have also assessed the adequacy of the related disclosures in the accompanying consolidated financial statements. - Assessed the qualifications, independence and expertise of the management's external valuers, involved in the valuation of investment properties.



**INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
TO SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY
(A SAUDI JOINT STOCK COMPANY) (continued)**

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Other information included in the Group's 2022 Annual Report

Other information consists of the information included in the Group's 2022 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 2022 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 2022 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 Chartered and Professional 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.



**INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
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.
- 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.



**INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
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 Statement (continued)

- 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, actions taken to eliminate threats or safeguards applied.

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 Professional Services



Marwan S. AlAfaliq
Certified Public Accountant
License No. 422



Al Khobar: 17 Shawwal 1444H
07 May 2023

Red Sea International Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

		2022 SR'000	2021 SR'000
	Note		
Revenues	6	419,569	468,201
Cost of revenues	7	(475,438)	(496,545)
GROSS LOSS		(55,869)	(28,344)
EXPENSES			
Selling and distribution	8	(16,739)	(18,049)
General and administration	9	(117,230)	(62,987)
OPERATING LOSS		(189,838)	(109,380)
Share in result of investment in an associate	20	(616)	(2,225)
Impairment of investment in an associate	20	(7,305)	-
Other income, net	10	12,418	1,618
Finance costs	11	(9,455)	(10,537)
Finance income		33	58
LOSS BEFORE ZAKAT AND INCOME TAX		(194,763)	(120,466)
Income tax	31	(41)	(113)
Zakat	31	(2,965)	(11,788)
LOSS FOR THE YEAR		(197,769)	(132,367)
LOSS ATTRIBUTABLE TO:			
Equity holders of the Parent Company		(196,132)	(130,439)
Non-controlling interests		(1,637)	(1,928)
		(197,769)	(132,367)
LOSS PER SHARE:			
Basic and diluted losses per share attributable to the shareholders of the Parent Company (restated)	12	(6.49)	(4.31)

		
Chairman of the Board	Chief Financial Officer	Chief Executive Officer

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 2022

	Note	2022 SR'000	2021 SR'000
Loss for the year		(197,769)	(132,367)
Other comprehensive income			
Other comprehensive income to be reclassified to consolidated statement of profit or loss in subsequent periods net of zakat and tax:			
Exchange differences on translation of foreign operations		-	308
Net other comprehensive income to be reclassified to consolidated statement of profits or loss in subsequent periods		-	308
Other comprehensive income/(loss) not to be reclassified to the consolidated statement of profit or loss in subsequent periods net of zakat and tax:			
Actuarial gain/(loss) on defined benefit liabilities	27	4,854	(2,178)
Net other comprehensive income/ (loss) not to be reclassified to consolidated statement of profit or loss in subsequent periods		4,854	(2,178)
Other comprehensive income/ (loss) for the year		4,854	(1,870)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(192,915)	(134,237)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Equity holders of the Parent Company		(191,278)	(132,309)
Non-controlling interests		(1,637)	(1,928)
		(192,915)	(134,237)



Chairman of the Board



Chief Financial Officer



Chief Executive Officer

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 2022

	<i>Note</i>	2022 SR'000	2021 SR'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	13	68,589	79,863
Investment properties	14	262,976	305,441
Intangible assets	15	2,368	3,330
Right-of-use assets	16	43,179	46,896
Trade receivables	19	-	31,495
Investment in an associate	20	-	7,921
TOTAL NON-CURRENT ASSETS		377,112	474,946
CURRENT ASSETS			
Inventories	17	73,581	141,367
Contract assets	18	54,979	46,050
Trade receivables	19	126,805	156,370
Advances to suppliers		79,940	77,906
Prepayments and other receivables	21	33,985	49,496
Cash and cash equivalents	22	32,342	5,838
TOTAL CURRENT ASSETS		401,632	477,027
TOTAL ASSETS		778,744	951,973
EQUITY AND LIABILITIES			
EQUITY			
Share capital	23	302,344	600,000
Accumulated losses		(172,456)	(278,834)
Foreign currency translation reserve		(11,779)	(11,779)
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY		118,109	309,387
NON-CONTROLLING INTERESTS	25	(24,435)	(22,798)
TOTAL EQUITY		93,674	286,589
NON-CURRENT LIABILITIES			
Employees' defined benefit liabilities	27	21,855	31,331
Non-current portion of lease liabilities	16	33,143	34,721
Other non-current liabilities	28	26,932	25,712
TOTAL NON-CURRENT LIABILITIES		81,930	91,764

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 (continued)
As at 31 December 2022

	Note	2022 SR'000	2021 SR'000
CURRENT LIABILITIES			
Trade payables	29	172,695	194,902
Accruals and other current liabilities	30	172,676	178,556
Short-term interest bearing loans and borrowings	26	117,267	118,656
Current portion of interest bearing loans and borrowings	26	5,143	21,429
Current portion of lease liabilities	16	13,325	14,281
Amount due to a shareholder	32	46,025	-
Contract liabilities		46,254	15,839
Zakat and income tax payable	31	29,755	29,957
TOTAL CURRENT LIABILITIES		603,140	573,620
TOTAL LIABILITIES		685,070	665,384
TOTAL EQUITY AND LIABILITIES		778,744	951,973



Chairman of the Board



Chief Financial Officer



Chief Executive Officer

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 2022

	<i>Attributed to shareholders of the parent Company</i>					<i>Total equity</i> SR '000
	<i>Share capital</i> SR '000	<i>Accumulated losses</i> SR '000	<i>Foreign currency translation reserve</i> SR '000	<i>Total</i> SR '000	<i>Non-controlling interests</i> SR '000	
As at 1 January 2021	600,000	(146,217)	(12,087)	441,696	(20,870)	420,826
Loss for the year	-	(130,439)	-	(130,439)	(1,928)	(132,367)
Other comprehensive (loss) / income	-	(2,178)	308	(1,870)	-	(1,870)
Total comprehensive loss	-	(132,617)	308	(132,309)	(1,928)	(134,237)
Balance at 31 December 2021	600,000	(278,834)	(11,779)	309,387	(22,798)	286,589
Absorption of accumulated losses against share capital (note 23)	(297,656)	297,656	-	-	-	-
Loss for the year	-	(196,132)	-	(196,132)	(1,637)	(197,769)
Other comprehensive income	-	4,854	-	4,854	-	4,854
Total comprehensive loss	-	(191,278)	-	(191,278)	(1,637)	(192,915)
Balance at 31 December 2022	302,344	(172,456)	(11,779)	118,109	(24,435)	93,674



Chairman of the Board



Chief Financial Officer



Chief Executive Officer

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 2022

	Note	2022 SR'000	2021 SR'000
OPERATING ACTIVITIES			
Loss before zakat and income tax from continuing operations		(194,763)	(120,466)
<i>Adjustments to reconcile losses before zakat and income tax to net cash flows:</i>			
Depreciation of property, plant and equipment	13	9,612	11,599
Depreciation of investment properties	14	46,899	51,972
Amortization of intangible assets	15	856	907
Write off of intangible assets	15	106	-
Depreciation of right-of-use assets	16	10,047	10,358
Provision for employees' defined benefit liabilities, net	27	3,722	4,412
Finance costs	11	9,455	10,537
Allowance for expected credit losses	9	45,067	9,138
Impairment of investment in an associate	20	7,305	-
Share in results of investment in an associate	20	616	2,225
(Gain)/loss on disposal of property, plant and equipment and investment properties		(1,940)	42
Gain on modification of right-of-use asset and related lease liabilities		(37)	(54)
		(63,055)	(19,330)
Working capital adjustments:			
Inventories		70,745	(15,919)
Contract assets		(14,593)	(2,286)
Trade receivables		30,695	18,980
Advances to suppliers		(2,034)	(29,808)
Prepayment and other receivables		6,473	9,409
Trade payables		(22,207)	56,742
Accruals and other current liabilities		(5,880)	(138)
Other non-current liabilities		1,220	637
Contract liabilities		30,415	(6,764)
Cash from operations		31,779	11,523
Finance cost paid		(7,333)	(7,844)
Employees' defined benefit liabilities paid	27	(8,344)	(8,256)
Zakat and income tax paid	31	(3,208)	(5,913)
Net cash flows from/(used in) operating activities		12,894	(10,490)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	13	(1,452)	(666)
Purchase of investment properties	14	(7,044)	(3,321)
Purchase of intangible assets	15	-	(7)
Proceeds from disposal of property, plant and equipment and investment properties		4,705	-
Net cash used in investing activities		(3,791)	(3,994)

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 (continued)
For the year ended 31 December 2022

	Note	2022 SR'000	2021 SR'000
FINANCING ACTIVITIES			
Proceeds from the interest bearing loans and borrowings		28,500	127,346
Loan received from shareholder	32	46,025	-
Repayment of interest bearing loans and borrowings		(46,175)	(129,507)
Payments for lease liabilities	16	(10,949)	(9,405)
Net cash from/(used in) financing activities		17,401	(11,566)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		26,504	(26,050)
Cash and cash equivalents at the beginning of the year		5,838	31,594
Movement in foreign currency translation reserve, net		-	294
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	22	32,342	5,838
SIGNIFICANT NON-CASH TRANSACTION:			
Remeasurement (gain)/loss on employees' defined benefit liabilities		(4,854)	2,178
Absorption of accumulated losses against share capital (note 23)		297,656	-
Investment properties transferred to inventories		(2,506)	(2,167)
Property, plant and equipment transferred to inventories		(453)	(258)



Chairman of the Board



Chief Financial Officer



Chief Executive Officer

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 2022

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 was registered in Jeddah, Kingdom of Saudi Arabia under commercial registration number 4030286984 pursuant to Ministerial Resolution No. 2532 dated 2 Ramadan 1427H (September 25, 2006). During 2021, the Company has changed its registered address to Riyadh, Kingdom of Saudi Arabia and converted a branch commercial registration number 1010566349 into Company's main commercial registration. The registered address of the Company is Riyadh Front, Al-Rimal District, Airport Street, Riyadh, Kingdom of Saudi Arabia. The Company have the 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 International Company	4030286984	Jeddah
Red Sea Housing Services Company	4030263716	Jeddah

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 and an associate included in the Group:

	<i>Country of incorporation</i>	<i>Effective ownership percentage</i>	
		2022	2021
<u>Subsidiaries</u>			
Red Sea Housing Services (Ghana) Limited ("RSG")	Ghana	100%	100%
SARL Red Sea Housing Services Algeria Limited ("RSA")	Algeria	98%	98%
Red Sea Housing Services Company Dubai FZE ("RSD")	UAE	100%	100%
Red Sea Building Materials and Equipments Trading Company ("RSBM")	Saudi Arabia	100%	100%
Premier Paints Company ("PPC")	Saudi Arabia	81%	81%
Red Sea Housing Services (Mozambique), LDA ("RSM")	Mozambique	100%	100%
Red Sea Housing Services LLC ("RSO")	Oman	100%	100%
Red Sea Modular Rentals LLC ("RSMR")	UAE	100%	100%
Red Sea Construction LLC ("RSC")	UAE	100%	100%
Red Sea Modular Rentals (Kuwait) WLL ("RSMK")	Kuwait	100%	100%
<u>Associates</u>			
Red Sea Housing Malaysia Sdn. Bhd. ("RSHM")	Malaysia	49%	49%
<u>Joint Operations</u>			
Red Sea Hanchi ("RSHC")	Algeria	49%	49%

In addition to the above, the Group owns other subsidiaries, registered in Nigeria, Libya, Saudi Arabia, Singapore and also has licenses to operate branches in Papua New Guinea and Abu Dhabi which are consolidated in these consolidated financial statements. These other subsidiaries and branches are either in early stages of operations or have not commenced any commercial operations at the reporting date.

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 2022 were authorised for issuance in accordance with the Board of Directors resolution dated 04 May 2023 (14 Shawwal 1444).

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

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 Chartered and Professional Accountants ("SOCPA") (collectively referred to as "IFRSs as endorsed in KSA").

The consolidated financial statements are prepared using historical cost convention on the basis that it will continue to operate as going concern.

These consolidated financial statements are presented in Saudi Riyals ("SR"). All values are rounded to the nearest thousands ("SR '000"), except when otherwise indicated.

2.1 *Going concern basis of accounting*

The Group incurred net loss of SR 197.8 million for the year ended 31 December 2022 (31 December 2021: SR 132.4 million) and as of 31 December 2022, its accumulated losses amounted to SR 172.5 million (31 December 2021: SR 278.8 million) which represent 57% (31 December 2021: 46.5%) of share capital as of the same date. Further, at 31 December 2022, the Group's current liabilities exceeded its current assets by SR 201.5 million (31 December 2021: SR 96.6 million) and consequently the Group was not in compliance with a covenant relates to current ratio which is an event of default as per a borrowing agreement (31 December 2021: same) with a commercial bank (note 26). These events or conditions, along with other matters, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

The ability of the Group to continue its operations depends on restructuring its equity, arrangement of financing facilities, entering into profitable contracts and increasing the volume of its revenue appropriately. Further, on 14 April 2022, the Company's Board of Directors recommended to the Company's shareholders to restructure its equity structure of which, amended by the Board of Directors on 19 May 2022 as follows:

- reducing the Company's share capital from SR 600 million to SR 302.3 million through cancellation of 29.8 million shares against the Company's accumulated losses, and
- increase the Company's share capital from SR 302.3 million to SR 452.3 million through right issue of 15 million shares.

During the extraordinary general meeting held on 24 July 2022, the shareholders approved the recommendation to reduce the Company's capital through absorbing accumulated losses of the Company as proposed by the Board of Directors. The legal formalities relating to this were completed during the year.

The Parent Company's management has made an assessment of the Group's ability to continue as a going concern with the consideration of project backlog, bids pipeline and is satisfied that it has the adequate resources to continue its business for the foreseeable future. In addition to that, during the year, Al-Dabbagh Group, which owns 70% of the Company's share, has provided interest free funds to the Group in order to meet its liabilities as they fall due. Even though, such funds received are classified under current liabilities in the financial statements based on the terms with the related party, the management does not expect these to be called for settlement in 2023. Further, subsequently, the Group, through its financial advisor, has signed a non-disclosure agreement to acquire 51% ownership of a limited liability company registered in Jeddah, Kingdom of Saudi Arabia. The consideration for the acquisition is expected to be partially settled through a term loan facility provided by a local commercial bank (note 39). Based on the Group's financial projections and step taken above, the Group's management has assessed its ability to continue as a going concern and is satisfied that the Group's operations shall continue for a foreseeable future under the normal course of business. Accordingly, these consolidated financial statements have been prepared on the going concern basis and do not include any adjustments, which may be required, if the Group is not able to continue as a going concern.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

2 BASIS OF PREPARATION (continued)

2.2 Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2022. 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 investee)
- 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.

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 (note 37)
- Financial risk management objectives and policies (note 36)
- Sensitivity analyses disclosures (note 27 & 36)

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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.

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

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.

Going Concern

The Group's management has made an assessment of its ability to continue as a going concern as disclose in note 2.1 to the consolidated financial statements and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Joint Operations

Judgement is required to determine when the Group has joint control, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements relate to the operating and capital decisions of the arrangement, such as: the approval the capital expenditure programme for each year, and appointing, remunerating and terminating the key management personnel of, or service providers to, the joint arrangement. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. Judgement is also required to classify a joint arrangement as either a joint operation or joint venture. Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement. Specifically, it considers:

- The structure of the joint arrangement – whether it is structured through a separate vehicle
- When the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:
 - The legal form of the separate vehicle
 - The terms of the contractual arrangement
 - Other facts and circumstances (when relevant)

This assessment often requires significant judgement, and a different conclusion on joint control and also whether the arrangement is a JO or a JV, may materially impact the accounting.

Based on the Group's control assessment, investments held in RSHC is classified as joint operations. Based on management's judgement, the contractual arrangement establishes that the parties to the joint arrangement share their interests in all assets relating to the arrangement.

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, 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.2 *Estimations and assumptions (continued)*

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.

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 28.

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.2 Estimations and assumptions (continued)

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

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the last year, except for the adoption of new standards effective as of 1 January 2022 as disclosed in note 5. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

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.

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 re-assesses 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 Investments in associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Investments in associate (continued)

The considerations made in determining significant influence is similar to those necessary to determine control over subsidiaries. The Group's investments in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate is eliminated to the extent of the interest in the associate. The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of profit or loss outside operating profit and represents profit or loss after tax and noncontrolling interests in the associate.

The financial statements of the associate is prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share of profit of an associate' in the consolidated statement of profit or loss. Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of profit or loss.

4.3 Interest in joint arrangements

A joint arrangement is an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control over an arrangement which exists only when the decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control. The Group's joint arrangement is as follows:

Joint operations Red Sea Hanchi ("RSHC")

A joint operation (JO) is a type of joint arrangement in which the parties with joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. In relation to its interests in RSHC, the financial statements of the Group includes:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

All such amounts are measured in accordance with the terms of each arrangement which are in proportion to the Group's interest that is 49% in each asset and liability, income and expense of the RSHC.

4.4 Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Non-current assets held for sale and discontinued operations (continued)

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale

In the consolidated profit or loss of the reporting period, and of the comparable period of the previous year income and expenses from discontinued operations are reported separate from income and expenses from continuing activities, down to the level of profit, even when the Group retains a non controlling interest in the subsidiary after the sale. The resulting profit or loss is reported separately in the consolidated statement of profit or loss.

4.5 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 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.

4.6 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Fair value measurement (continued)

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.

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.

4.7 Revenue recognition

Revenue from contracts with customers

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 Group 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Revenue recognition (continued)

Revenue from contracts with customers (continued)

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 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.

b) 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. However, when the instances where the customer simultaneously received and consumes the benefits provided by the Company, the revenue is recognized over the time.

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.

(c) 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.

Rental revenue from investment properties

a) 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.

b) 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.

4.8 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 Group shall recognize such parts as individual assets with specific useful lives and depreciate them accordingly.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 Property plant and equipment (continued)

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 office equipment	4 to 5 years
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 profit or loss 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.

4.9 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 statement of profit or loss. 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 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.

4.10 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 profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10 Intangible assets /amortisation (continued)

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 profit or loss 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

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

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

4.11 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 transit	- 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.

4.12 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.

4.13 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).

4.14 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 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.

4.16 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.

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.

4.17 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18 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.

4.19 Zakat and taxes

Zakat and income tax

Zakat is provided for the Company and for subsidiaries operating inside the Kingdom of Saudi Arabia in accordance with Regulations of the Zakat, Tax and Customs Authority ("the ZATCA") 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 profit or loss. 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 profit or loss.

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.

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.19 Zakat and taxes (continued)

Deferred tax (continued)

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.

4.20 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 Group Chief Executive Officer, who assesses the financial performance and position of the Group, and makes strategic decisions. Group Chief Executive Officer has been identified as being the Group 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.

4.21 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.

4.22 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Group as a lessee

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.22 Leases (continued)

Group as a lessee (continued)

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Land	2 - 39 years
Equipments	4 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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 lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

4.23 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 profit or loss reflects the amount that arises from using this method.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.23 Foreign currencies (continued)

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 consolidated statement of profit or loss 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 profit or loss.

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 profit or loss, 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 profit or loss 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 profit or loss.

4.24 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 Group incurs in connection with the borrowing of funds.

4.25 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 profit or loss. 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.25 Employee benefit obligations (continued)

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

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

4.26 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.

4.27 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.

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial assets (continued)

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.

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.

4.28 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.28 Impairment of non financial assets (continued)

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.

4.29 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 30% of the share capital. The reserve is not available for distribution.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

5 STANDARDS ISSUED BUT NOT EFFECTIVE AND NEW STANDARDS

New and amended standards and interpretations:

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous year, except for certain amendments to standards adopted by the Company as of 1 January 2022. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The adoption of these standards and interpretations did not have any effect on the Group's financial position, financial performance or disclosures.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable of meeting the obligations under the contract costs (i.e., the costs that the Group cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The Group applied the amendments to the contracts for which it had not fulfilled all of its obligations at the beginning of the reporting period. These amendments had no impact on the consolidated financial statements of the Group.

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

In accordance with the transitional provisions, the Group applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments (1 January 2022).

These amendments had no impact on the consolidated financial statements of the Group as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the period.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Group applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (1 January 2022).

These amendments had no impact on the consolidated financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

5 STANDARDS ISSUED BUT NOT EFFECTIVE AND NEW STANDARDS (continued)

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

These amendments had no impact on the consolidated financial statements of the Group as it is not a first-time adopter.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the consolidated financial statements of the Group as there were no modifications of the Group's financial instruments during the period.

IAS 41 Agriculture – Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

These amendments had no impact on the consolidated financial statements of the Group as it did not have assets in scope of IAS 41 as at the reporting date.

Standards issued but not yet effective:

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

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 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, 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.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

5 STANDARDS ISSUED BUT NOT EFFECTIVE AND NEW STANDARDS (continued)

Amendments to IAS 1: Classification of Liabilities as Current or Non-current (continued)

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently revisiting their accounting policy information disclosures to ensure consistency with the amended requirements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The Group is currently assessing the impact of the amendments

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group's financial statements.

Red Sea International Company (A Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

6 REVENUES

	2022 SR'000	2021 SR'000
<i>Revenue from the contract with customers:</i>		
Revenue from sale of buildings	239,632	245,218
Sale of paint and paint related products and services	15,362	20,001
	<u>254,994</u>	<u>265,219</u>
<i>Other revenue:</i>		
Rental revenue from investment properties	164,575	202,982
	<u>419,569</u>	<u>468,201</u>

6.1 As per the contracts with the customers, there is no financing, non-cash consideration or consideration payable to customers involved in transaction price.

7 COST OF REVENUES

	2022 SR'000	2021 SR'000
Direct cost	302,443	315,708
Depreciation and amortisation	65,014	72,198
Employee salaries and benefits	61,953	65,136
Others	46,028	43,503
	<u>475,438</u>	<u>496,545</u>

8 SELLING AND DISTRIBUTION EXPENSES

	2022 SR'000	2021 SR'000
Employee salaries and benefits	13,118	15,347
Marketing fees	808	60
Travelling	539	260
Depreciation and amortization	464	611
Visa and license expenses	327	393
Rent	156	237
Others	1,327	1,141
	<u>16,739</u>	<u>18,049</u>

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

9 GENERAL AND ADMINISTRATION EXPENSES

	2022	2021
	SR'000	SR'000
Allowance for expected credit losses, net	45,067	9,138
Employee salaries and benefits	37,471	35,981
Professional fees	12,877	6,359
Allowance against consideration receivable for sale of a subsidiary	9,294	-
Rent	3,158	1,141
Travelling	2,520	2,044
Depreciation and amortization	1,936	2,026
Insurance	984	1,215
Utilities	963	847
Others	2,960	4,236
	117,230	62,987

10 OTHER INCOME, NET

	2022	2021
	SR'000	SR'000
Net gains/(loss) on disposal of property, plant and equipment and investment properties	1,940	(42)
Scrap sales	1,891	925
Net foreign currency exchange losses	(1,180)	(831)
Others, net	9,767	1,566
	12,418	1,618

11 FINANCE COSTS

	2022	2021
	SR'000	SR'000
Non-conventional borrowings	3,979	2,133
Interest expense on lease liabilities (note 16)	2,122	2,693
Conventional borrowings	1,470	2,869
Bank charges and other costs	1,272	2,205
Unwinding of discount for provision for decommissioning (note 28)	612	637
	9,455	10,537

12 LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the 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:

	2022	2021
	SR'000	SR'000
		(Note 12.1)
Loss for the year attributable to the shareholders of the parent Company	(196,132)	(130,439)
Adjusted weighted average number of outstanding shares during the period (share '000) (restated)	30,234	30,234
Basic and diluted loss per share attributable to the shareholders of the Parent Company (restated)	(6.49)	(4.31)

12.1 The earning per share for the comparative period has been adjusted retrospectively to reflect the treatment of effect of decrease in share capital as required by the relevant accounting standard (refer note 2).

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

13 PROPERTY, PLANT AND EQUIPMENT

	<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</i>	<i>Total</i>
	<i>Freehold land</i>	<i>(note 13.1)</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
<i>Cost:</i>						
At 1 January 2021	2,250	164,469	71,772	21,469	27,023	42,081
Additions	-	58	33	325	-	250
Disposals	-	-	(348)	(397)	(547)	(1,292)
Transfer from inventories	-	94	-	-	-	94
Transfer to inventories	-	(395)	-	-	-	(395)
Foreign currency translation	-	197	-	22	8	227
At 31 December 2021	2,250	164,423	71,457	21,419	26,484	42,331
<i>Accumulated depreciation and impairment:</i>						
At 1 January 2021	-	97,708	60,194	16,649	21,634	41,899
Charge for the year	-	5,539	2,500	2,178	950	432
Disposals	-	-	(348)	(396)	(514)	(1,258)
Transfer to inventories	-	(137)	-	-	-	(137)
Foreign currency translation	-	197	-	10	6	213
At 31 December 2021	-	103,307	62,346	18,441	22,076	42,331
<i>Net book amounts:</i>						
At 31 December 2021	2,250	61,116	9,111	2,978	4,408	-
						79,863

Red Sea International Company (A Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

13 PROPERTY, PLANT AND EQUIPMENT (continued)

	<i>Freehold land</i>	<i>Buildings and residential houses (note 13.1)</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 2022	2,250	164,423	71,457	21,419	26,484	42,331	328,364
Additions	-	-	19	115	-	1,318	1,452
Disposals	(2,250)	(652)	(52)	-	(661)	-	(3,615)
Transfer to inventories	-	(117)	(569)	(51)	-	(251)	(988)
At 31 December 2022	-	163,654	70,855	21,483	25,823	43,398	325,213
<i>Accumulated depreciation and impairment:</i>							
At 1 January 2022	-	103,307	62,346	18,441	22,076	42,331	248,501
Charge for the year	-	5,123	2,087	1,681	721	-	9,612
Disposals	-	(308)	(45)	-	(601)	-	(954)
Transfer to inventories	-	(46)	(446)	(43)	-	-	(535)
At 31 December 2022	-	108,076	63,942	20,079	22,196	42,331	256,624

Net book amounts:
At 31 December 2022

-	55,578	6,913	1,404	3,627	1,067	68,589
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13.1 The Group production facilities are located on plots of land leased under various lease arrangements (note 16).

13.2 The accumulated impairment losses on property, plant and equipment as of 31 December 2022 amounts to SAR 46 million (31 December 2021: same).

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

13 PROPERTY, PLANT AND EQUIPMENT (continued)

13.3 Depreciation for the years has been allocated as follows:

	2022 SR'000	2021 SR'000
Cost of revenue	8,187	9,899
General and administration expenses	1,233	1,414
Selling and distribution expenses	192	286
	9,612	11,599

14 INVESTMENT PROPERTIES

	Freehold land SR '000	Buildings and residential houses SR '000	Capital work-in- progress SR '000	Total SR '000
<i>Cost:</i>				
At 1 January 2021	4,228	915,457	43,366	963,051
Additions	-	375	2,946	3,321
Disposal	-	(794)	-	(794)
Transfers	-	1,701	(1,701)	-
Transfer to inventories	-	(7,249)	-	(7,249)
Foreign currency translation	-	1	1	2
At 31 December 2021	4,228	909,491	44,612	958,331
Additions	-	65	6,979	7,044
Disposal	-	(5,365)	-	(5,365)
Transfer from Capital work-in-progress	-	51,169	(51,169)	-
Transfer to inventories	-	(3,618)	-	(3,618)
Foreign currency translation	-	(4)	-	(4)
At 31 December 2022	4,228	951,738	422	956,388
<i>Accumulated depreciation and impairment:</i>				
At 1 January 2021	-	606,784	-	606,784
Charge for the year	-	51,551	421	51,972
Disposal	-	(786)	-	(786)
Transfer to inventories	-	(5,082)	-	(5,082)
Foreign currency translation	-	1	1	2
At 31 December 2021	-	652,468	422	652,890
Charge for the year	-	46,899	-	46,899
Disposal	-	(5,261)	-	(5,261)
Transfer to inventories	-	(1,112)	-	(1,112)
Foreign currency translation	-	(4)	-	(4)
At 31 December 2022	-	692,990	422	693,412
<i>Net book amounts:</i>				
At 31 December 2022	4,228	258,748	-	262,976
At 31 December 2021	4,228	257,023	44,190	305,441

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

14 INVESTMENT PROPERTIES (continued)

- 14.1 Direct operating expenses in respect of investment properties generating rental income for the year amounts to SR 56.4 million (2021: SR 63.7 million).
- 14.2 During 2020, the Group finalised joint arrangement in Algeria with a third party and transferred investment properties with a carrying value of SR 16 million. The Group re-recognised the investment properties transferred to the joint operations based on the % of ownership amounting to SAR 7.8 million. At the reporting date, balance of investment properties included SAR 6.7 million related to joint operation (2021: SAR 7.5 million).
- 14.3 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>SR '000</u>
2022			
KSA	Land Sterling Property Consultants	Registered valuers with Saudi Authority for Accredited Valuers	284,860
Dubai	Land Sterling Property Consultants	(Taqeem Saudi Arabia) and	1,220
Oman	Land Sterling Property Consultants	Member of Royal Institute of	1,295
Algeria	Land Sterling Property Consultants	Chartered Surveyors	20,674
			308,049
2021			
KSA	Land Sterling Property Consultants	Registered valuers with Saudi Authority for Accredited Valuers	292,230
Dubai	Land Sterling Property Consultants	(Taqeem Saudi Arabia) and	2,371
Oman	Land Sterling Property Consultants	Member of Royal Institute of	1,434
Algeria	Land Sterling Property Consultants	Chartered Surveyors	9,966
			306,001

- 14.4 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 neighbourhood, except for the properties at Dubai and Oman which were valued using cost approach - depreciated replacement cost method (DRC). 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. DRC is based on an estimate of the current gross replacement costs of improvements less allowance for physical deterioration and all relevant forms of obsolescences and optimisation. Above fair value does not include assets under construction.

- 14.5 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>SR '000</i>	<i>Level 2</i> <i>SR '000</i>	<i>Level 3</i> <i>SR '000</i>	<i>Total</i> <i>SR '000</i>
2022	-	-	308,049	308,049
2021	-	-	306,001	306,001

For the level 3 fair value measurement, the quantitative information about the significant unobservable inputs used in the fair value measurement include discount rate from 11.5% to 22%, yield of 12.5% to 50%, the occupancy rate of 55% to 75%.

- 14.6 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 2022

15 INTANGIBLE ASSETS

	<i>Licenses</i> <i>SR'000</i>	<i>Goodwill</i> <i>SR'000</i>	<i>Computer</i> <i>software</i> <i>SR'000</i>	<i>Total</i> <i>SR'000</i>
<i>Cost:</i>				
At 1 January 2021	23,829	6,416	9,805	40,050
Additions	-	-	7	7
At 31 December 2021	23,829	6,416	9,812	40,057
Write off	-	-	(106)	(106)
At 31 December 2022	23,829	6,416	9,706	39,951
<i>Accumulated amortisation and impairment:</i>				
At 1 January 2021	23,829	6,365	5,626	35,820
Charge for the year	-	-	907	907
At 31 December 2021	23,829	6,365	6,533	36,727
Charge for the year	-	-	856	856
At 31 December 2022	23,829	6,365	7,389	37,583
<i>Net carrying value</i>				
At 31 December 2022	-	51	2,317	2,368
At 31 December 2021	-	51	3,279	3,330

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

16 LEASES

16.1 Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period.

	<i>Land</i> <i>SR'000</i>	<i>Equipment</i> <i>SR'000</i>	<i>Total</i> <i>SR'000</i>
<i>Cost:</i>			
Amount as of 1 January 2021	78,289	144	78,433
Remeasurement	(96)	-	(96)
Lease termination	(659)	-	(659)
At 31 December 2021	77,534	144	77,678
Additions	5,770	-	5,770
Remeasurement	594	-	594
Lease termination	(34)	-	(34)
At 31 December 2022	83,864	144	84,008
<i>Accumulated amortisation:</i>			
At 1 January 2021	20,352	72	20,424
Depreciation expense	10,358	-	10,358
At 31 December 2021	30,710	72	30,782
Depreciation expense	10,047	-	10,047
At 31 December 2022	40,757	72	40,829
<i>Net carrying value</i>			
At 31 December 2022	43,107	72	43,179
At 31 December 2021	46,824	72	46,896

16.2 Set out below are the carrying amounts of lease liabilities and the movements during the period:

	<i>Lease liabilities</i>	
	<i>2022</i>	<i>2021</i>
	<i>SR'000</i>	<i>SR'000</i>
At 1 January	49,002	56,523
Additions to lease liabilities	5,770	-
Interest expense (note 11)	2,122	2,693
Remeasurement	523	(809)
Payments	(10,949)	(9,405)
At 31 December	46,468	49,002
Current portion of lease liabilities	13,325	14,281
Non-current portion of lease liabilities	33,143	34,721

Maturity analysis of lease liabilities have been disclosed in the note 36 of these consolidated financial statements.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

16 LEASES (continued)

16.3 The following are the amounts recognised related to the right-of-use assets and lease liabilities in the consolidated statement of profit or loss:

	2022 SR'000	2021 SR'000
Depreciation expense of right-of-use assets	10,047	10,358
Interest expense on lease liabilities	2,122	2,693
Expense relating to short-term leases and low value assets	1,726	4,593
	13,895	17,644

17 INVENTORIES

	2022 SR'000	2021 SR'000
Raw materials	57,157	75,329
Work in progress	20,082	60,858
Finished goods	49,018	50,319
	126,257	186,506
Less: provision for obsolete inventory	(52,676)	(45,139)
	73,581	141,367

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

	2022 SR'000	2021 SR'000
At the beginning of the year	45,139	35,093
Provision for the year	7,537	10,046
	52,676	45,139

At the reporting date, the Group re-assessed the realisable value of inventories and as a result recorded an additional provision of SR 7.5 million (2021: 10 million) in the consolidated statement of profit or loss by taking into consideration the age and condition of these inventories.

18 CONTRACT ASSETS

	2022 SR'000	2021 SR'000
Sale of building - work executed but not billed	38,054	14,842
Rental revenue - accrued but not billed	22,589	31,208
	60,643	46,050
Allowance for expected credit losses	(5,664)	-
	54,979	46,050

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

19 TRADE RECEIVABLES

	2022			2021		
	<i>Receivables from contracts with customers</i>			<i>Receivables from contracts with customers</i>		
	<i>Rental receivables</i>	<i>Total</i>		<i>Rental receivables</i>	<i>Total</i>	
	SR'000			SR'000		
Billed	155,793	61,078	216,871	168,910	76,733	245,643
Retentions receivable	23,307	-	23,307	25,179	51	25,230
Allowance for expected credit losses	(107,123)	(6,250)	(113,373)	(73,691)	(9,317)	(83,008)
	71,977	54,828	126,805	120,398	67,467	187,865
Less: current portion	(71,977)	(54,828)	(126,805)	(88,903)	(67,467)	(156,370)
Non current portion (note 19.1)	-	-	-	31,495	-	31,495

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 allowance for expected credit losses are as follows:

	2022	2021
	SR'000	SR'000
At the beginning of the year	83,008	82,489
Provided during the year	30,365	9,161
Reversal during the year	-	(8,642)
At the end of the year	113,373	83,008

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. However, following extended discussions and negotiations between the customer and Group, the customer agreed to execute legal documentation acknowledging the debt and giving promissory note of USD 5.4 million (SR 20.2 million) and claim over the assets of the customer's camp in Angola, which would allow the Company the right to take a secondary charge over these assets. Accordingly, the Group and customer withdraw from litigation proceedings in Houston, Texas, USA and submitted enforcement proceeding against the customer in Angola. However, there is no significant development in the enforcement proceeding filed and the management is considering re-filing a case again in USA against the customer. As of the date of the financial statements, no legal proceedings have been initiated with the view of enforcing the securities granted.

Total outstanding balance from this customer included in the non-current portion amounted to SR 86.9 million as of 31 December 2022 (2021: SR 86.9 million). In light of the above pending litigation and related uncertain outcome, the management of the Group has recognized an allowance against the entire outstanding balance of SR 86.9 million (2021: SR 57.2 million).

19.2 Refer to note 36.2 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

20 INVESTMENT IN AN ASSOCIATE

The Group has 49% interest in RSHM which is accounted for using the equity method in consolidated financial statements. Below is the summarized financial information of the Group's investment in the associate:

Summarised statement of financial position for associate

	2022 SR'000	2021 SR'000
Current assets	5,598	5,817
Non current assets	12,644	12,585
Current liabilities	(10,937)	(10,481)
Group's carrying amount of investment	7,305	7,921
Less: impairment loss	(7,305)	-
Group's net carrying amount of investment	-	7,921

Carrying value of the investment in associate includes goodwill attributable to associate.

Summarised statements of comprehensive income for associate

	2022 SR'000	2021 SR'000
Revenue	65	641
Cost of revenue	(759)	(3,750)
Other income	459	(228)
Administrative expenses	(1,001)	(1,153)
Other operating expenses	(20)	(30)
Finance charges	(2)	-
Finance income	-	(21)
Total comprehensive loss	(1,258)	(4,541)
Group's share of loss for the year	(616)	(2,225)

21 PREPAYMENTS AND OTHER RECEIVABLES

	2022 SR'000	2021 SR'000
Margin deposits	8,364	8,857
Advance and valued added tax	6,513	1,106
Prepaid expenses and deposits	4,642	3,805
Amounts due from related parties (note 32)	4,434	12,128
Advances to employees	915	382
Consideration receivable for sale of subsidiary	-	9,294
Others	9,117	13,924
	33,985	49,496

Terms and conditions for related party transactions and balances are disclosed under note 32 of these consolidated financial statements.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

22 CASH AND CASH EQUIVALENTS

	2022 SR'000	2021 SR'000
Bank balances	31,818	5,599
Cash in hand	524	239
	32,342	5,838

23 SHARE CAPITAL

The share capital of the Company as at 31 December 2022 amounted to SR 302,344,000 (31 December 2021: SR 600,000,000) consisting of 30,234,400 shares (31 December 2021: 60,000,000 shares) fully paid and issued shares at a value of SR 10 per share.

During the year ended 31 December 2022, the Company has completed the legal formalities with respect of reduction of the Company's capital through absorbing the accumulates losses of the Company (refer note 2).

24 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 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.

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:

Name	Principal activities	Country of incorporation	2022	2021
SARL Red Sea Housing Services Algeria Limited ("RSA")	Rental/sales of non -concrete building	Algeria	2%	2%
Premier Paints Company ("PPC")	Manufacturing and trading paints	Saudi Arabia	19%	19%

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

Summarised statement of profit or loss and other comprehensive income:

	31 December 2022 SR'000		31 December 2021 SR'000	
	RSA	PPC	RSA	PPC
Revenues	758	16,657	7,571	20,204
Loss for the year	(3,776)	(8,218)	(2,958)	(9,807)
Total comprehensive loss	(3,776)	(8,218)	(2,958)	(9,807)
Attributable to non-controlling interests	(76)	(1,561)	(59)	(1,856)

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

25 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

Summarised statement of financial position:

	31 December 2022		31 December 2021	
	SR'000		SR'000	
	RSA	PPC	RSA	PPC
Current assets	10,294	7,013	12,035	6,605
Current liabilities	(3,992)	(34,090)	(3,244)	(3,280)
Net current assets/(liabilities)	6,302	(27,077)	8,791	3,325
Non-current assets	9,838	5,498	11,106	6,053
Non-current liabilities	-	(6,778)	-	(3,415)
Net non-current assets	9,838	(1,280)	11,106	2,638

26 INTEREST BEARING LOANS AND BORROWINGS

	2022	2021
	SR'000	SR'000
Interest bearing short-term borrowings (note 26.1)	117,267	118,656
Current portion of long-term borrowings (note 26.2)	5,143	21,429
Total borrowings	122,410	140,085

26.1 At 31 December 2022 and 2021, short-term borrowings represent bank loans obtained from various commercial banks and bear financial charges at prevailing market rates which are based on Saudi inter-bank offer rates. These borrowings are denominated in Saudi Riyal. Total unused credit facilities available to the Group at 31 December 2022 were approximately SR 43.4 million (2021: SR 21.8 million) principally representing overdrafts, short-term loans and re-financing of invoices and letters of credit. The short-term borrowings are secured by promissory notes, inventories and assignment of contract proceeds. Certain credit facility agreements contain covenants requiring maintenance of certain financial ratios and other matters. During the year, the Company obtained waiver from a commercial bank with respect of requirement of financial ratios. However, the Company is not in compliance with the covenant relates to another facility with a local commercial bank which is an event of default as per the borrowing agreements.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

26 INTEREST BEARING LOANS AND BORROWINGS (continued)

26.2 Long term borrowings represent loans obtained from commercial banks in the Kingdom of Saudi Arabia. These borrowings are denominated in Saudi Riyal and bear financial charges of SIBOR plus fixed margin between 1.75% and 3%. The aggregate maturities of these borrowings, based on their respective repayment schedules, are spread through 2022 and 2023. These borrowings are principally secured by promissory notes and assignment of contract proceeds. The borrowing agreements contain covenants requiring the Group to main certain financial ratios, retention of certain proportion of profits in the business, lenders' prior approval for change in ownership structure of the Company and certain other matters.

As of 31 December 2022, the Group was not in compliance with a covenant relates to current ratio which is an event of default as per the borrowing agreements. Consequently, principle amount repayable as of 31 December 2022 became repayable on demand presented under current liabilities in the statement of financial position.

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

	2022	2021
	SR'000	SR'000
2022	-	140,085
2023	122,410	-
	122,410	140,085

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>Premier Paints Company</i>	<i>Total</i>
	SR ' 000		
Conventional borrowings	-	6,588	6,588
Tawarruq	115,822	-	115,822
At 31 December 2022	115,822	6,588	122,410
Conventional borrowings	24,995	8,608	33,603
Tawarruq	106,482	-	106,482
At 31 December 2021	131,477	8,608	140,085

Premier Paints Company's ("PPC") short-term loan agreement is subject to covenants, whereby the PPC is required to meet certain key financial ratios. PPC did not maintain the required tangible net worth ratio as defined in the facility agreement. However, the loan is secured by the corporate guarantees issued by the Parent Company and minority Partner of PPC and has not been recalled by the banks. The outstanding balance of PPC short-term loan also presented as a current liability as at the reporting date.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

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 2022 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:

	2022	2021
Discount rate	4.99%	2.36%
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:

	2022 SR'000	2021 SR'000
Current service cost	3,081	3,947
Interest cost on benefit obligation	641	465
Net benefit expense	3,722	4,412

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

	2022 SR'000	2021 SR'000
At the beginning of the year	31,331	32,997
Net benefit expense	3,722	4,412
Benefits paid	(8,344)	(8,256)
Remeasurement (gain)/loss on employees' defined benefit liabilities	(4,854)	2,178
At the end of the year	21,855	31,331

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

	2022 SR'000	2021 SR'000
Actuarial losses arising from changes in financial assumptions	(16,773)	(1,370)
Experience adjustments	11,919	3,548
At the end of the year	(4,854)	2,178

27.4 Breakup of the employee benefit obligations by geographic segment:

	Saudi Arabia SR'000	UAE SR'000	Ghana SR'000	Other SR'000	Total SR'000
2022	15,383	6,052	308	112	21,855
2021	21,627	8,448	1,213	43	31,331

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

27 EMPLOYEES' DEFINED BENEFIT LIABILITIES (continued)

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

	<i>Increase/ (decrease)</i>	<i>2022 SR '000</i>	<i>2021 SR '000</i>
Discount rate	1.00% (1.00%)	(1,107) 1,259	(1,821) 2,026
Expected rate of salary increase	1.00% (1.00%)	1,173 (1,046)	1,858 (1,701)
Retirement age	1 Year (1 Year)	(531) 492	(769) 729

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:

	<i>2022 SR '000</i>	<i>2021 SR '000</i>
Within the next 12 months (next annual reporting period)	2,108	4,077
Between 2 and 5 years	7,240	11,269
Over 5 years	12,885	21,248
Total expected payments	22,233	36,594

The average duration of the defined benefit plan obligation at the end of the reporting period is 5.17 years (31 December 2021: 6.15 years).

During the year, the Group have contributed SAR 4.5 million (2021: SAR 4.3 million) into the general organisation of social insurance ("GOSI") for its Saudi national staff.

28 OTHER NON-CURRENT LIABILITIES

Other non-current liabilities represents the provision for decommissioning costs related to liabilities for restoration work or land restoration required for dismantling of investment properties used to generate rental revenue. The expected dates for usage of the provision are spread in years 2023 through 2026. Movement in the provision for decommissioning costs was as follows:

	<i>2022 SR'000</i>	<i>2021 SR'000</i>
At the beginning of the year	26,029	25,392
Additions during the year	1,000	-
Unwinding of discount charge for the year (note 11)	612	637
Amount utilised during the year	(392)	-
At the end of the year	27,249	26,029
Less: current portion (note 30)	(317)	(317)
	26,932	25,712

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

29 TRADE PAYABLES

	2022 SR'000	2021 SR'000
Trade accounts payables	165,701	188,339
Due to related parties (note 32)	6,994	6,563
	172,695	194,902

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

	2022 SR'000	2021 SR'000
Accrual for project operation and catering costs	111,636	124,962
Employee salaries and benefits	19,054	17,425
Accrued consultancy charges	10,903	8,522
Deposits from customers	9,028	7,014
Unearned rental revenue	801	786
Provision for assurance type warranties	685	639
Provision for decommissioning costs (note 28)	317	317
Accrued indirect taxes	215	876
Other accrued expenses	20,037	18,015
	172,676	178,556

31 ZAKAT AND INCOME TAX

The major components of zakat and income tax expense for the year ended 31 December 2022 and 2021 are:

Consolidated statement of profit or loss

	2022 SR'000	2021 SR'000
Zakat	2,965	11,788
Income tax expense	41	113
	3,006	11,901

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

	Zakat	Current tax	Total	Zakat	Current tax	Total
	31 December 2022 SR '000			31 December 2021 SR '000		
At the beginning of the year	26,543	3,414	29,957	20,650	3,319	23,969
Provision for the year	2,965	41	3,006	11,788	113	11,901
Payments during the year	(3,167)	(41)	(3,208)	(5,895)	(18)	(5,913)
At 31 December	26,341	3,414	29,755	26,543	3,414	29,957

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

31 ZAKAT AND INCOME TAX (continued)

31.2 Zakat

(i) Zakat charge for the year consist of :

	2022 SR'000	2021 SR'000
Provision for the year	2,965	4,206
Prior period adjustment	-	7,582
Charge for the year	2,965	11,788

The provision for the year is based on zakat base of the Parent 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 Parent Company and its wholly owned subsidiary

The zakat assessments of the Company and its wholly owned Saudi subsidiary as a whole have been agreed with the Zakat, Tax and Customs Authority ("the ZATCA") up to 2010. The zakat declarations until years 2021 have been filed with the ZATCA.

During 2020, the Zakat, Tax and Customs Authority ("the ZATCA") had issued an assessment for the years 2014 through 2017 amounting to SR 67.1 million for the Company and its wholly owned subsidiaries. The Company filed an appeal against the ZATCA assessment for the said period. During the current period, the ZATCA issued a revised assessment for the years 2014 through 2017 amounting to SR 53.1 million for the Company and its wholly owned subsidiaries. The Company has escalated the appeal against the ZATCA assessments for the above-mentioned period with the General Secretariat of Tax Committees ("GSTC") and the case is still under review by the committees.

Further, during 2021, the ZATCA issued an assessment for the years 2019 and 2020 amounting to SR 11.6 million for the Company and its wholly owned subsidiaries. The management of the company submitted an appeal against this assessment with ZATCA. During 2022, the ZATCA issued a revised assessment for the year 2019 and 2020 amounting to SR 8 million for the Company and its wholly owned subsidiaries. The Company has escalated the appeal against the ZATCA assessments for the above-mentioned period with the General Secretariat of Tax Committees ("GSTC") and the case is still under review by the committees.

However, the Parent Company maintains sufficient provision in the books to account for any liability arising upon the ultimate resolution of these issued assessments.

The Zakat assessments of the Company and its wholly owned Saudi subsidiary for the years 2011 to 2013 and for the years 2018 and 2021 have not yet been raised by the ZATCA.

b) Partially owned subsidiaries

Premier Paints Company

During 2018, Premier Paints Company received Zakat, tax and WHT assessments for the years 1999 to 2014 amounting to SR 2.6 million, which was subsequently reduced to SR 2.59 million and the Company filled an appeal with GSTC on the revised assessment. During 2021, ZATCA issued amnesty scheme whereby, the ZATCA waived the delay penalties and fines and the Company settled WHT liability of SR 0.95 million and agreed to be settled SR 1.22 million of zakat liability on installments basis.

Further, during 2021, PPC received an assessment for the years 2017 and 2018 with additional zakat liability of SR 0.8 million. The management of PPC has recognized the provision against the assessment raised.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

31 ZAKAT AND INCOME TAX (continued)

31.3 Income Tax

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

	2022 SR '000	2021 SR '000
Provision and charge for the year	41	113

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) 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. RSG received tax assessment for years from 2011 to 2016 amounting to SR 4.7 million. RSG filed an appeal against this amount and settled SR 1.5 million in 2018, however the assessment yet to be finalised. RSG is currently under a tax audit for the 2017-2020 years of assessment and as of 31st December 2022 the assessments have not been finalized.

31.4 Deferred Tax

The Group has not recognized net deferred tax asset of SR 10.84 million (2021: SR 11.13 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 of Dabbagh Group Holding Company Limited and its affiliated entities (collectively the "Dabbagh Group"), majority shareholder of the Parent 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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

32 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

32.1 Significant transactions with related parties' included in the consolidated statement of profit and loss are as follows:

	2022	2021
Nature of transaction	SR'000	SR'000
Expenses paid on behalf of associates	1,335	456
Payment for land rentals	883	883
Interest free funds received from a shareholder	46,025	-
Expenses paid by the ultimate parent company on behalf of the Group	-	290

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

Amount due from related parties presented under prepayments and other receivables (note 21)

	2022	2021
	SR'000	SR'000
Petromin Corporation	-	3,039
Red Sea Housing Malaysia SDN BHD	4,434	9,089
	4,434	12,128

Amount due to a shareholder

	2022	2021
	SR'000	SR'000
Dabbagh Group Holding Company Limited	46,025	-

Amount due to related parties presented under trade payables (note 29)

	31 December 2022	31 December 2021
	SR'000	SR'000
Dabbagh Group Holding Company Limited	1,004	1,074
National Scientific Company	45	30
Sherwin-Williams Protective and Marine Coatings	5,945	5,459
	6,994	6,563

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

	2022	2021	2022	2021
	SR'000	SR'000	SR'000	SR'000
	Members of Board of Directors		Key Management	
Short-term employee benefits	-	-	8,970	8,679
End-of service employee benefits	-	-	376	453
Board of directors' fees	4,980	1,703	-	-
	4,980	1,703	9,346	9,132

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

33 CONTINGENCIES AND COMMITMENTS

As at 31 December 2022, the Group had capital commitments of SR 44.1 million (2021: SR 45.1 million). Also at December 31 the Group had the following outstanding contingencies:

	<i>2022</i>	<i>2021</i>
	<i>SR'000</i>	<i>SR'000</i>
Letters of guarantee	35,744	84,591
Letters of credit	2,609	457

34 OPERATING LEASES

The Group leased out various residential houses under operating lease agreements. Rental income from such leases for the year ended 31 December 2022 amounted to SR 164.6 million (2021: SR 201.9 million).

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

	<i>2022</i>	<i>2021</i>
	<i>SR'000</i>	<i>SR'000</i>
Within one year	167,731	198,121
After one year but not more than five	386,508	381,440
	554,239	579,561

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

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 consolidated financial statements.

Business segments

	31 December 2022				31 December 2021			
	<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>
	SR '000				SR '000			
Revenue:								
Total segment revenue	328,401	164,575	16,657	509,633	245,218	202,982	20,204	468,404
Inter-segment revenue elimination	(88,769)	-	(1,295)	(90,064)	-	-	(203)	(203)
Revenue from external customers	239,632	164,575	15,362	419,569	245,218	202,982	20,001	468,201
Timing of revenue recognition:								
At point in time	101,432	-	15,362	116,794	126,851	-	20,001	146,852
Over time	138,200	164,575	-	302,775	118,367	202,982	-	321,349
	239,632	164,575	15,362	419,569	245,218	202,982	20,001	468,201
(Loss)/profits before finance cost, finance income, depreciation & amortization and zakat and income tax	(223,457)	109,255	(3,725)	(117,927)	(151,768)	122,388	(5,639)	(35,019)
Finance cost	(2,810)	(2,618)	(4,027)	(9,455)	(4,275)	(3,267)	(3,126)	(10,668)
Finance income	33	-	-	33	58	-	-	58
Depreciation & amortisation	(10,468)	(56,946)	-	(67,414)	(10,816)	(62,775)	(1,246)	(74,837)
(Loss)/profit before zakat and income tax	(236,702)	49,691	(7,752)	(194,763)	(166,801)	56,346	(10,011)	(120,466)
Income tax	-	-	(41)	(41)	-	(113)	-	(113)
Zakat	(1,618)	(882)	(465)	(2,965)	(3,722)	(7,226)	(840)	(11,788)
Segment (loss)/profit from operations	(238,320)	48,809	(8,258)	(197,769)	(170,523)	49,007	(10,851)	(132,367)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

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 2022				At 31 December 2021			
	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	373,819	391,722	13,203	778,744	471,812	466,342	13,819	951,973
Total liabilities	420,559	226,031	38,480	685,070	397,147	233,118	35,119	665,384

During the year ended 31 December 2022, approximately 67% of the total revenues from non-concrete residential and commercial buildings segment were derived from 5 customers (2021: approximately 48% from 5 customers). During the year, approximately 72% of the total revenues from rental segment were derived from 5 customers (2021: approximately 72% from 5 customers).

The Group's operations are conducted in Saudi Arabia, UAE, Ghana, 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 2022					
	Saudi Arabia	UAE	Ghana	Algeria	Others	Total
	SR '000					
Total segment revenue	360,916	138,395	9,180	758	384	509,633
Inter-segment revenue elimination	(1,295)	(88,769)	-	-	-	(90,064)
Revenue from external customers	359,621	49,626	9,180	758	384	419,569
Segment loss from operations	(131,553)	(23,018)	(38,771)	(3,822)	(605)	(197,769)
	31 December 2021					
	Saudi Arabia	UAE	Ghana	Algeria	Others	Total
	SR '000					
Total segment revenue	332,794	120,881	15,452	3,925	663	473,715
Inter-segment revenue elimination	(203)	(5,311)	-	-	-	(5,514)
Revenue from external customers	332,591	115,570	15,452	3,925	663	468,201
Segment loss from operations	(78,737)	(39,017)	(10,581)	(3,430)	(602)	(132,367)

Red Sea International Company (A Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

35 SEGMENTAL INFORMATION (continued)

	31 December 2022					
	<i>Saudi Arabia</i>	<i>UAE</i>	<i>Ghana</i>	<i>Algeria</i>	<i>Others</i>	<i>Total</i>
	<i>SR '000</i>					
Non-current assets						
Property, plant and equipment	19,139	28,977	17,712	2,576	185	68,589
Investment properties	254,596	588	-	6,742	1,050	262,976
Intangible assets	1,867	497	4	-	-	2,368
Total assets and liabilities						
Total assets	601,836	121,772	31,997	20,132	3,007	778,744
Total liabilities	556,850	112,951	10,524	3,992	753	685,070
	31 December 2021					
	<i>Saudi Arabia</i>	<i>UAE</i>	<i>Ghana</i>	<i>Algeria</i>	<i>Others</i>	<i>Total</i>
	<i>SR '000</i>					
Non-current assets						
Investment in an associate	216	7,705	-	-	-	7,921
Property, plant and equipment	25,586	31,201	19,898	2,992	186	79,863
Investment properties	295,535	1,283	-	7,485	1,138	305,441
Intangible assets	2,672	646	7	5	-	3,330
Total assets and liabilities						
Total assets	719,482	131,231	74,545	23,141	3,574	951,973
Total liabilities	556,964	91,961	12,479	3,244	736	665,384

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

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.

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 borrowings with floating interest rates. The Group manages its interest rate risk by continuously monitoring movements in the interest rates.

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</i>
		<i>SR '000</i>
2022	-100	(105)
	+100	105
2021	-100	(269)
	+100	269

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"), 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, OMR and MYR. The Group manages currency risk exposure to the above currencies by continuously monitoring the currency fluctuations.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 Market risk (continued)

36.1 (c) Foreign currency risk (continued)

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.

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.

Currency	2022		2021	
	Change in currency rate %	Effect on equity SR'000	Change in currency rate %	Effect on equity SR'000
OMR	10	71	10	135
MYR	10	-	10	-
LYD	10	61	10	65
MZN	10	20	10	24

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:

	2022 SR'000	2021 SR'000
Bank balances	31,818	5,599
Trade receivables	126,805	187,865
Contract assets	54,979	46,050
Other receivables	22,830	44,585
	236,432	284,099

The Group seeks to manage its credit risk with respect to customers by setting credit limits 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 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 2022, the Group had 4 customers (2021: 4) that owed it more than SR 120 million in total and accounted for approximately 56% (2021: 51%) of all the receivables and contract assets outstanding.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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.

Set out below is the information about the credit risk exposure at reporting date on the Group's accounts receivables:

	<i>Trade receivables</i>					
	<i>Current</i>	<i>30 - 90 days</i>	<i>91 - 180 days</i>	<i>181 - 360 days</i>	<i>> 360 days</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>
31 December 2022	63,936	9,520	12,583	15,795	138,344	240,178
31 December 2021	44,371	39,869	39,018	29,041	118,574	270,873

Based on a provision matrix, the Group's expected credit losses at 31 December 2022 against its trade receivables exposed to credit risk amounted to SR 119 million (2021: SR 83 million). In 2022, the Group recognised an amount of SR 36 million (2021 : SR 9.2 million) as allowance for expected credit losses in its consolidated statement of profits or loss with relates to trade receivables and contract assets.

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, bank borrowings and borrowing from a shareholder. 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.

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.

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.3 Liquidity risk (continued)

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 2022

	<i>Less than 1 year</i>	<i>1 to 5 years</i>	<i>> 5 years</i>	<i>Total</i>
	<i>SR '000</i>			
Trade and other payables	172,695	-	-	172,695
Interest bearing loans and borrowings	122,397	2,495	-	124,892
Lease liabilities	15,051	28,886	11,903	55,840
	310,143	31,381	11,903	353,427

Year ended 31 December 2021

	<i>Less than 1 year</i>	<i>1 to 5 years</i>	<i>> 5 years</i>	<i>Total</i>
	<i>SR'000</i>			
Trade and other payables	194,902	-	-	194,902
Interest bearing loans and borrowings	136,170	5,297	-	141,467
Lease liabilities	15,245	26,125	15,750	57,120
	346,317	31,422	15,750	393,489

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>Total</i>
	<i>SR'000</i>			
At 1 January 2021	36,608	26,365	79,273	142,246
Cash flows	(36,608)	(4,936)	39,383	(2,161)
31 December 2021	-	21,429	118,656	140,085
Cash flows	-	(16,286)	(1,389)	(17,675)
31 December 2022	-	5,143	117,267	122,410

Red Sea International Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2022

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.

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)"

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, contract assets and other current assets which are measure 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 2022 was assessed to be insignificant.

39 SUBSEQUENT EVENTS

Subsequently, the Group has signed a non-disclosure agreement to acquire 51% ownership of a limited liability company registered in Jeddah, Kingdom of Saudi Arabia. The consideration for the acquisition is expected to be partially settled through a term loan facility provided by a local commercial bank. The Group is in the process of signing the facility agreement in this respect along with the acquisition of the new entity and expecting to be completed in quarter ending 30 June 2023.

In the opinion of the Company's management, there have been no further subsequent events since the year ended 31 December 2022 that would have a material impact on the financial position of the Company as reflected in these financial statements.

16.2 Appendix 2: Summary Pro Forma Unaudited Summary Consolidated Financial Information Prepared for the Company for the Nine-Month Period Ended on 30 September 2023G

**RED SEA INTERNATIONAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)**

**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL
INFORMATION AND INDEPENDENT PRACTITIONERS' ASSURANCE REPORT**

FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023

RED SEA INTERNATIONAL COMPANY AND ITS SUBSIDIARIES (A SAUDI JOINT STOCK COMPANY)
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION AND
INDEPENDENT PRACTITIONERS' ASSURANCE REPORT
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023

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**INDEPENDENT PRACTITIONERS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO
FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION INCLUDED IN A SHAREHOLDERS'
CIRCULAR TO THE SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY
(A SAUDI JOINT STOCK COMPANY)**

1/3

Introduction

We have completed our assurance engagement to report on the compilation of unaudited pro forma condensed consolidated financial information (hereinafter referred to as the "Pro forma financial information") of Red Sea International Company (A Saudi Joint Stock Company) ("the Company" or "the Parent Company") and its subsidiaries (collectively referred to as "the Group") prepared by the Group's management. The pro forma financial information consists of unaudited pro forma condensed consolidated statement of financial position as at 30 September 2023 and the unaudited pro forma condensed consolidated statements of profit or loss and cash flows for the nine-months period ended 30 September 2023 and related notes as set out on Annex 2 of the Shareholders' circular issued by the Group. The applicable criteria on the basis of which the Group's management has compiled the pro forma financial information are specified in ANNEX 19 of the Rules on the Offer of Securities and Continuing Obligations issued by the Board of the Capital Market Authority in the Kingdom of Saudi Arabia and as described in note 2 "Basis of Preparation".

The Pro forma financial information has been compiled by the Group's management to illustrate the impact of the transaction and the related assumptions (the "transaction") set out in note 2 on the Group's financial position as at 30 September 2023 and its financial performance and cash flows for the nine-months period ended 30 September 2023 as if the transaction had taken place at 1 January 2023 for the unaudited pro forma condensed consolidated statements of profit or loss and cash flows and at 30 September 2023 for the unaudited pro forma condensed consolidated statement of financial position. As part of this process, information about the Group's financial position and financial performance and cash flows has been extracted by the Group's management from the Group's unaudited interim condensed consolidated financial statements as at and for the nine-month period ended 30 September 2023, on which our review report with material uncertainty related to going concern has been published.

The Group Management Responsibility for the Pro Forma Financial Information

The Group's management is responsible for compiling the pro forma financial information on the basis of ANNEX 19 of the Rules on the Offer of Securities and Continuing Obligations issued by the Board of the Capital Market Authority in the Kingdom of Saudi Arabia as described in note 2 'Basis of Preparation'.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia

The firm applies International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements as endorsed in the Kingdom of Saudi Arabia and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.



INDEPENDENT PRACTITIONERS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION INCLUDED IN A SHAREHOLDERS' CIRCULAR TO THE SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY) (continued)

2/3

Practitioners' responsibilities

Our responsibility is to express an opinion as required by ANNEX 19 of the Rules on the Offer of Securities and Continuing Obligations issued by the Board of the Capital Market Authority in the Kingdom of Saudi Arabia about whether the pro forma financial information has been compiled, in all material respects, by the Group's management on the basis of the applicable criteria described in note 2 'Basis of Preparation' to the Pro forma financial information.

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3420, "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", as endorsed in the Kingdom of Saudi Arabia. This standard requires that the practitioner plan and perform procedures to obtain reasonable assurance about whether the Group's management has compiled, in all material respects, the Pro forma financial information on the basis of the applicable criteria described in note 2 'Basis of Preparation' to the Pro forma financial information.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in a Shareholders' circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction at 30 September 2023 would have been as presented.

A reasonable assurance engagement to report on whether the Pro forma financial information has been compiled in all material respects on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Group's management in the compilation of the Pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to transaction and to obtain sufficient appropriate evidence about whether:

- The related Pro forma adjustments give appropriate effect to those criteria; and
- The Pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.



INDEPENDENT PRACTITIONERS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION INCLUDED IN A SHAREHOLDERS' CIRCULAR TO THE SHAREHOLDERS OF RED SEA INTERNATIONAL COMPANY (A SAUDI JOINT STOCK COMPANY) (continued)

3/3

Practitioners' responsibilities (continued)

The procedures selected depend on the practitioner's judgment, having regard to the practitioner's understanding of the nature of the Group, the event or transactions in respect of which the Pro forma financial information has been compiled and other relevant engagement circumstances. The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Pro forma financial information has been compiled in all material respects, on the basis of applicable criteria described in notes 2 'Basis of Preparation to the pro forma financial information'.

Restriction on Use

Our report is provided to the shareholders of the Company for inclusion in the Shareholders circular and therefore, our report should not be used or relied upon by any third parties without our prior written consent.

for Ernst & Young Professional Services



Marwan S. AlAfaliq
Certified Public Accountant
License No. 422



Al Khobar: 9 Shawwal 1446H
7 April 2025

RED SEA INTERNATIONAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023

	30 September 2023 SR'000 (Unaudited)	Pro forma Adjustments SR'000	30 September 2023 (pro forma) SR'000 (Unaudited)
Revenues	347,216	-	347,216
Cost of revenues	(342,222)	-	(342,222)
GROSS PROFIT	4,994	-	4,994
EXPENSES			
Selling and distribution	(10,650)	-	(10,650)
General and administration	(34,542)	-	(34,542)
OPERATING LOSS	(40,198)	-	(40,198)
Other income (loss), net	(538)	-	(538)
Finance costs	(10,042)	-	(10,042)
Finance income	530	-	530
LOSS BEFORE ZAKAT	(50,248)	-	(50,248)
Zakat	(4,501)	(1,675)	(6,176)
LOSS FOR THE PERIOD	(54,749)	(1,675)	(56,424)
ATTRIBUTABLE TO:			
Equity holders of the Parent Company	(52,667)	(1,675)	(54,342)
Non-controlling interests	(2,082)	-	(2,082)
	(54,749)	(1,675)	(56,424)
LOSS PER SHARE:			
Weighted average number of ordinary shares (number in thousand)	30,234	18,033	48,267
Basic and diluted, loss per share attributable to the equity holders of the Parent Company	(1.74)	(0.09)	(1.13)



Chairman of the Board



Chief Financial Officer



Chief Executive
Officer

The attached notes 1 to 4 form part of these unaudited pro forma condensed consolidated financial information.

RED SEA INTERNATIONAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 SEPTEMBER 2023

	<i>30 September 2023 SR'000 (Unaudited)</i>	<i>Pro forma Adjustments SR'000</i>	<i>30 September 2023 (pro forma) SR'000 (Unaudited)</i>
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	60,264	-	60,264
Investment properties	221,541	-	221,541
Intangible assets	1,814	-	1,814
Right-of-use assets	35,126	-	35,126
Investment in an unconsolidated subsidiary	-	394,799	394,799
TOTAL NON-CURRENT ASSETS	318,745	394,799	713,544
CURRENT ASSETS			
Inventories	75,624	-	75,624
Contract assets	47,588	-	47,588
Trade receivables	130,653	-	130,653
Advances to suppliers	41,526	-	41,526
Prepayments and other receivables	22,018	-	22,018
Cash and cash equivalents	262,556	-	262,556
TOTAL CURRENT ASSETS	579,965	-	579,965
TOTAL ASSETS	898,710	394,799	1,293,509
EQUITY AND LIABILITIES			
EQUITY			
Share capital	302,344	180,330	482,674
Share premium	-	295,694	295,694
Accumulated losses	(225,123)	(1,675)	(226,798)
Foreign currency translation reserve	(11,779)	-	(11,779)
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY	65,442	474,349	539,791
NON-CONTROLLING INTERESTS	(26,517)	-	(26,517)
TOTAL EQUITY	38,925	474,349	513,274
NON-CURRENT LIABILITIES			
Term loan	247,500	-	247,500
Employees' defined benefit liabilities	21,426	-	21,426
Other non-current liabilities	27,483	-	27,483
Non-current portion of lease liabilities	32,059	-	32,059
TOTAL NON-CURRENT LIABILITIES	328,468	-	328,468
CURRENT LIABILITIES			
Trade payables	102,212	-	102,212
Accruals and other current liabilities	187,434	-	187,434
Short-term interest bearing loans and borrowings	92,471	-	92,471
Current portion of lease liabilities	9,892	-	9,892
Amount due to a shareholder	82,233	(81,225)	1,008
Contract liabilities	23,207	-	23,207
Zakat and income tax payable	33,868	1,675	35,543
TOTAL CURRENT LIABILITIES	531,317	(79,550)	451,767
TOTAL LIABILITIES	859,785	(79,550)	780,235
TOTAL EQUITY AND LIABILITIES	898,710	394,799	1,293,509


Chairman of the Board


Chief Financial Officer


Chief Executive Officer

The attached notes 1 to 4 form part of these pro forma condensed consolidated financial information.

RED SEA INTERNATIONAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023

	<i>30 September 2023 SR'000 (Unaudited)</i>	<i>Pro forma Adjustments SR'000</i>	<i>30 September 2023 (pro forma) SR'000 (Unaudited)</i>
OPERATING ACTIVITIES			
Loss before zakat	(50,248)	-	(50,248)
Adjustments to reconcile loss before zakat to net cash flows:			
Depreciation of property, plant and equipment	9,236	-	9,236
Depreciation of investment properties	35,193	-	35,193
Amortization of intangible assets	554	-	554
Depreciation of right-of-use assets	8,053	-	8,053
Movement in employees' defined benefit liabilities, net	(429)	-	(429)
Finance costs	10,042	-	10,042
Loss on disposal of property, plant and equipment and investment properties	1,399	-	1,399
Working capital adjustments:	13,800	-	13,800
Inventories	(2,043)	-	(2,043)
Contract assets	7,391	-	7,391
Trade receivables	(3,848)	-	(3,848)
Advances to suppliers	38,414	-	38,414
Prepayment and other receivables	11,967	-	11,967
Trade payables	(70,483)	-	(70,483)
Accruals and other current liabilities	15,875	-	15,875
Other non-current liabilities	551	-	551
Contract liabilities	(23,047)	-	(23,047)
Cash used in operations	(11,423)	-	(11,423)
Finance cost paid	(11,159)	-	(11,159)
Zakat and income tax paid	(388)	-	(388)
Net cash used in operating activities	(22,970)	-	(22,970)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment and investment properties	(1,357)	-	(1,357)
Proceeds from disposal of property, plant and equipment and investment properties	5,289	-	5,289
Net cash from investing activities	3,932	-	3,932

The attached notes 1 to 4 form part of these pro forma condensed consolidated financial information.

RED SEA INTERNATIONAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023

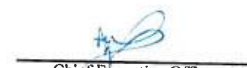
	30 September 2023 SR'000 (Unaudited)	Pro forma Adjustments SR'000	30 September 2023 (pro forma) SR'000 (Unaudited)
FINANCING ACTIVITIES			
Proceeds from interest bearing loans and borrowings	247,500	-	247,500
Repayment of interest bearing loans and borrowings	(29,939)	-	(29,939)
Funds received from a shareholder	36,208	-	36,208
Payments of lease liabilities	(4,517)	-	(4,517)
Net cash from financing activities	249,252	-	249,252
INCREASE IN CASH AND CASH EQUIVALENTS	230,214	-	230,214
Cash and cash equivalents at the beginning of the period	32,342	-	32,342
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	262,556	-	262,556
SIGNIFICANT NON- CASH TRANSACTION :			
Issue of new shares (debt to equity conversion)	-	180,330	179,383
Share premium (debt to equity conversion)	-	295,694	294,141
Investment in an unconsolidated subsidiary (investment recognized to the extend of in-kind consideration, refer note 2)	-	394,799	394,799
Amounts due to a shareholder derecognised as part of the Transaction (debt to equity conversion, refer note 2)	-	81,225	78,725



Chairman of the Board



Chief Financial Officer



Chief Executive Officer

The attached notes 1 to 4 form part of these pro forma condensed consolidated financial information.

RED SEA INTERNATIONAL COMPANY AND ITS SUBSIDIARIES (A SAUDI JOINT STOCK COMPANY)

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION AT 30 SEPTEMBER 2023

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 was registered in Jeddah, Kingdom of Saudi Arabia under commercial registration number 4030286984 pursuant to Ministerial Resolution No. 2532 dated 2 Ramadan 1427H (September 25, 2006). During 2021, the Company has changed its registered address to Riyadh, Kingdom of Saudi Arabia and converted a branch commercial registration number 1010566349 into Company's main commercial registration. The registered address of the Company is P.O. Box 13316, Al Thumamah Road, Ar-Rabie District, Riyadh, Kingdom of Saudi Arabia. The Company have the following branches in the Kingdom of Saudi Arabia:

<i>Branch</i>	<i>Commercial registration</i>	<i>Location</i>
Red Sea International Company	2055003672	Jubail
Red Sea International Company	2055006105	Jubail
Red Sea International Company	4030286984	Jeddah
Red Sea Housing Services Company	4030263716	Jeddah

The Group is controlled by Al Dabbagh Group Holding Company Limited, (including through its subsidiaries), which owns 70% (effective holding) of the Company's shares.

Going concern basis of accounting

The Group incurred a net loss of SR 56.4 million (SR 54.7 million pre pro forma adjustments) for the nine-month period ended 30 September 2023 and as of 30 September 2023, its accumulated losses amounted to SR 226.8 million (SR 225.1 million pre pro forma adjustments) which represent 47.1% (74.5% pre pro forma adjustments) of share capital as of the same date. Further, the Group is required to maintain certain financial ratios as required under a facility agreement entered with a local commercial bank and the Group is not in compliance with this as of 30 September 2023, which is an event of default as per the facility agreement. These events or conditions, along with other matters, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

The ability of the Group to continue its operations depends on restructuring its equity, arrangement of financing facilities, entering into profitable contracts and increasing the volume of its revenue appropriately. During the year ended 31 December 2022, the Company received waiver from a commercial bank with respect of the breach of covenant. The facility agreement with other commercial bank with the financing facility of SR 76 million was renewed in May 2023, irrespective of the breach of the covenant. Further, during the period, the Company successfully obtained SR 250 million long term loan from a local commercial bank for the acquisition of a subsidiary (The Fundamental Installation for Electric Work Company Limited - (First Fix)). In addition to that, Al-Dabbagh Group, which owns 70% of the Company's share, has provided interest free funds to the Group amounting to SR 81.2 million in order to meet its liabilities as they fall due.

On 2 August 2023, corresponding to 15 Muharram 1445H, the Board of Directors of the Company recommended to increase the Company's share capital by way of converting debt that owed to Al-Dabbagh Group along with the in-kind consideration on the acquisition of First Fix after obtaining the regulatory approval and approval of the Company's extraordinary general assembly. The Board of Directors recommendation further amended on 17 March 2024, corresponding to 7 Ramadhan 1445H, revise the proposed increase of capital as stated on note 3.

The Company's management has made an assessment of the Group's ability to continue as a going concern with the consideration of project backlog, bids pipeline and other factors mentioned above and is satisfied that the Group's operations shall continue for a foreseeable future under the normal course of business. Accordingly, these unaudited pro forma condensed consolidated financial statements have been prepared on going concern basis and do not include any adjustments, which may be required, if the Group is not able to continue as a going concern.

RED SEA INTERNATIONAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION
(continued)

AT 30 SEPTEMBER 2023

2 BASIS OF PREPARATION

The purpose of these unaudited pro forma condensed consolidated financial information prepared by the management is to illustrate the expected pro forma effect of Board of Directors recommendation for extinguishment of financial liabilities i.e. amounts owed to Al-Dabbagh Group and in-kind consideration on the acquisition of a subsidiary with the Company's own equity instruments (issue of share capital of the Company by debts conversion) (the "Transaction") on the unaudited pro forma condensed consolidated financial information.

The unaudited pro forma condensed consolidated statement of financial position data as of 30 September 2023 gives effect to the Transactions as if they had occurred on 30 September 2023 and the unaudited pro forma condensed consolidated statements of profit or loss and cash flows data for the nine-months period ended 30 September 2023 gives effect to the Transactions as if they had occurred on 1 January 2023.

The unaudited pro forma adjustments are based upon available information and certain assumptions that we believe to be reasonable.

The historical unaudited interim condensed consolidated financial statements have been adjusted in the unaudited pro forma condensed consolidated financial information to give effect to pro forma events that are (1) directly attributable to the Transaction and (2) factually supportable.

These unaudited pro forma condensed consolidated financial information have been prepared on the basis of various assumptions, estimates, uncertainties, and currently available information, and are provided for illustrative purposes only. Consequently, the accompanying unaudited pro forma condensed consolidated financial information may not reflect the true picture of the actual financial position or results of the Group's operations, as it is dependent on the completion of all the legal formalities and regulatory clearances related to the Transaction, planned at a future date. The unaudited pro forma condensed consolidated financial information is for informational purposes only and should not be considered indicative of actual results that would have been achieved had the Transaction been consummated on the date indicated and do not purport to indicate our future consolidated results of operations or financial position.

The Group's unaudited pro forma condensed consolidated financial information is compiled and prepared under the requirements of ANNEX 19 of the Rules on the Offer of Securities and Continuing Obligations issued by the Board of the Capital Market Authority in the Kingdom of Saudi Arabia. The assumptions and estimates underlying the unaudited adjustments to the pro forma condensed consolidated financial information are described in the accompanying notes, which should be read together with the unaudited pro forma condensed consolidated financial information.

These unaudited pro forma condensed consolidated financial information are presented in Saudi Riyals ("SR"). All values are rounded to the nearest thousands ("SR '000"), except when otherwise indicated.

3 DEBT TO EQUITY CONVERSION

The Company had the following debts:

- Amount due to a shareholder "Al-Dabbagh Group Holding Company Limited": The shareholder has provided multiple interest-free short-term loans amounting to SR 81.2 million to the Group for the purpose of meeting its working capital commitments.
- In-kind consideration on acquisition of a subsidiary: In June 2023, the Group signed a share purchase agreement with the shareholders of The Fundamental Installation for Electric Work Company Limited (First Fix) for acquisition of 51% shareholding of First Fix. Total purchase consideration agreed on the transaction amounting to SR 644.8 million, of which SR 250 million to be settled in cash, the rest is payable either in cash or in-kind by way of newly issued shares of the Group. Subsequent to the period ended 30 September 2023, the Company obtained the related regulatory approval and met the conditions with respect of the acquisition of First Fix and effective 1 October 2023, the legal formalities with respect of the acquisition was completed.

On 2 August 2023, corresponding to 15 Muharram 1445H, the Board of Directors of the Company recommended to increase the Company's share capital by way of converting debt that owed to Al-Dabbagh Group along with the in-kind consideration on the acquisition of First Fix, after obtaining the regulatory approval and approval of the Company's extraordinary general assembly. The Board of Directors recommendation further amended on 17 March 2024, corresponding to 7 Ramadhan 1445H, to revise the propose increase with respect of shareholder's loan amounting to SR 81.2 million and in-kind consideration to SR 394.8 million in accordance with the share purchase agreement.

RED SEA INTERNATIONAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION
 (continued)
 AT 30 SEPTEMBER 2023

3 DEBT TO EQUITY CONVERSION (continued)

The management has prepared these pro forma condensed consolidated financial information based on the assumption that the amounts due to a shareholder and the in-kind consideration on the acquisition of First fix are derecognized by the issuance of the Company's ordinary shares at an assumed fair value equal to the average quoted price over last five days trading period from the signing date of the share purchase agreement (i.e. 9 June 2023). Consequently, all the adjustments in respect of the related financial captions are made on the assumption that all the regulatory approvals and legal formalities related to the transaction were completed and effective on 30 September 2023.

Accordingly, the effect of the Transaction, resulted in following pro forma adjustments:

- increase in the issued share capital of the Company by SR 180.3 million;
- increase in the share premium by SR 295.7 million;
- increase in investment in an unconsolidated subsidiary by amounting to SR 394.8 million which is equal to the in-kind consideration on the acquisition of First Fix;
- decrease in amount due to shareholder by 81.2 million;
- Increase in the zakat payable by SR 1.7 million

The effect of pro forma adjustments on the individual elements in the unaudited historical financial information are detailed below.

The share capital structure before and after the transaction is as follows:

Shareholders	30 September 2023					
	Prior to the transaction (unaudited)			Pro forma post the transaction (unaudited)		
	% Share	SR'000	No. of share	% Share	SR'000	No. of share
New share holders of the Company	-	-	-	31	149,560	14,955,971
Existing share holders of the Company	100	302,344	30,234,400	69	333,114	33,311,412
	100	302,344	30,234,400	100	482,674	48,267,383

New shares have been issued at par value of SR 10

Share premium

	30 September 2023 prior to the transaction SR'000 (Unaudited)	30 September 2023 Pro forma post the transaction SR'000 (Unaudited)
Ordinary shares with the a nominal value of SAR 10 per share issued at a premium of SR 16.20 per share (assumed average 5 days quoted share price of the effective date of the transaction)	-	295,694

Investment in an unconsolidated subsidiary

Investment in an unconsolidated subsidiary presented in the unaudited pro forma condensed consolidated statement of financial position is restricted only to the extent of in-kind consideration on the acquisition of the subsidiary amounting to SR 394,798,724.

RED SEA INTERNATIONAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)
NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION
 (continued)
 AT 30 SEPTEMBER 2023

3 DEBT TO EQUITY CONVERSION (continued)

	<i>30 September 2023 prior to the transaction SR'000 (Unaudited)</i>	<i>30 September 2023 Pro forma post the transaction SR'000 (Unaudited)</i>
Investment in an unconsolidated subsidiary	-	394,799
Amount due to a shareholder	82,233	1,008
Zakat and income tax payable	33,868	35,543
Accumulated losses	(225,123)	(226,798)

The Company and the creditors reached an agreement on the conversion factor that determines the number of shares creditors will receive following the transaction's effectiveness, after thorough negotiations and discussions. The parties agreed that the conversion factor is calculated based on the Company issuing shares at a ratio of (a/b), where (a) represents the final settlement value of the debt as per the acquisition agreement, and (b) represent the arithmetic average of the closing prices of the Company's shares listed on Tadawul over the five (5) trading days preceding the effective date of the acquisition agreement. Consequently, using the specified conversion factor, the company reached valuation of approximately SAR (26.40) per share of the new shared.

Total debts conversion transaction details	
Total deferred consideration with relates to the acquisition of First Fix	Saudi Riyal three hundred ninety-four million seven hundred ninety-eight thousand seven hundred twenty-four (SR 394,798,724)
Al Dabbagh Group loan value	Saudi Riyal eighty-one million two hundred twenty-five thousand ninety-seven (SR 81,225,097)
Total debts conversion transaction value	Saudi Riyal four hundred seventy-six million twenty-three thousand eight hundred twenty-one (SR 476,023,821)
Agreed share price of Red Sea International Company for the purpose of transaction (conversion factor)	SR 26.40 (rounded to the nearest decimal)
Total number of new shares	Eighteen million thirty-two thousand nine hundred eighty-three (18,032,983) fully paid shared with the nominal value of SR ten (SR 10) per share.

4 APPROVAL OF THE UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The unaudited forma condensed consolidated financial information was approved and authorized on 7 April 2025, corresponding to 24 Shawwal 1446H.



RED SEA
International