

**MIDDLE EAST SPECIALIZED CABLES COMPANY**  
(A Saudi Joint Stock Company)

**CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2015**



**KPMG Al Fozan & Partners**  
**Certified Public Accountants**

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License No. 46/11/323 issued 11/3/1992

## **INDEPENDENT AUDITORS' REPORT**

To: **The Shareholders**  
**Middle East Specialized Cables Company**  
**(A Saudi Joint Stock Company)**  
**Riyadh, Kingdom of Saudi Arabia**

We have audited the accompanying consolidated financial statements of Middle East Specialized Cables Company (the "Company") and its subsidiaries (collectively the "Group") which comprise the consolidated balance sheet as at 31 December 2015 and the related consolidated statements of income, cash flows and changes in equity for the year then ended and the attached notes (1) through (26) which form an integral part of the consolidated financial statements.

### ***Management's responsibility for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with Article (123) of the Regulations for Companies and Company's bylaws, 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. Management has provided us with all the information and explanations that we require relating to our audit of these consolidated financial statements.

### ***Auditors' responsibilities***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



## Opinion

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

- 1) present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and of its results of operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group; and
- 2) comply with the requirements of the Regulations for Companies and the Company's bylaws with respect to the preparation and presentation of the financial statements.

**For KPMG Al Fozan & Partners  
Certified Public Accountants**



Khalil Ibrahim Al Sedais  
License no: 371

Date: 16 Jumada'I 1437H  
Corresponding to: 25 February 2016

**MIDDLE EAST SPECIALIZED CABLES COMPANY**

(A Saudi Joint Stock Company)

**CONSOLIDATED BALANCE SHEET**

(Amounts in Saudi Riyal)

		As at 31 December	
	<i>Note</i>	2015	2014
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and bank balances	4	34,949,383	26,288,775
Account receivables	5	369,665,015	439,065,097
Current portion of retention receivables	6	8,954,862	23,305,017
Inventories	7	231,885,826	254,154,090
Advances, prepayments and other current assets	8	27,706,073	30,899,669
<b>Total current assets</b>		<b>673,161,159</b>	<b>773,712,648</b>
<b>Non-current assets</b>			
Available for sale investments	9	-	3,906,325
Retention receivables	6	33,482,146	26,994,471
Fixed assets	10	428,315,864	522,626,925
Intangible assets	11	1,294,485	1,754,533
<b>Total non-current assets</b>		<b>463,092,495</b>	<b>555,282,254</b>
<b>Total assets</b>		<b>1,136,253,654</b>	<b>1,328,994,902</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Short term loans	12 (a)	141,223,832	158,593,705
Current portion of long term loans	12 (b)	160,880,703	157,475,924
Trade and notes payable		132,204,355	122,617,040
Due to a related party	13	2,438,725	2,043,226
Accrued expenses and other current liabilities	14	59,207,828	63,293,691
<b>Total current liabilities</b>		<b>495,955,443</b>	<b>504,023,586</b>
<b>Non-current liabilities</b>			
Long term loans	12 (b)	296,933,623	335,248,422
Employees' end of service benefits		32,685,260	25,424,905
<b>Total non-current liabilities</b>		<b>329,618,883</b>	<b>360,673,327</b>
<b>Total liabilities</b>		<b>825,574,326</b>	<b>864,696,913</b>
<b>EQUITY</b>			
<b>Equity attributable to Company's shareholders</b>			
Share capital	1	600,000,000	600,000,000
Statutory reserve		28,985,180	28,985,180
Accumulated losses		(254,992,562)	(147,469,998)
Unrealized loss on available for sale investments		-	(598,147)
<b>Total equity attributable to Company's shareholders</b>		<b>373,992,618</b>	<b>480,917,035</b>
Non-controlling interest		(63,313,290)	(16,619,046)
<b>Total equity</b>		<b>310,679,328</b>	<b>464,297,989</b>
<b>Total liabilities and equity</b>		<b>1,136,253,654</b>	<b>1,328,994,902</b>

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

**MIDDLE EAST SPECIALIZED CABLES COMPANY**

(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF INCOME**

(Amounts in Saudi Riyal)

		For the year ended	
	<i>Note</i>	31 December	
		<u>2015</u>	<u>2014</u>
Sales		887,687,031	858,477,145
Cost of sales		(806,951,402)	(752,026,006)
<b>GROSS PROFIT</b>		<u>80,735,629</u>	<u>106,451,139</u>
<b>EXPENSES</b>			
Selling and marketing expenses	16	(71,132,076)	(41,871,163)
General and administrative expenses	17	(43,870,720)	(38,261,310)
Cost of unutilized production capacity	18	(23,856,169)	(23,956,299)
Impairment of fixed assets	19	(61,484,700)	-
<b>TOTAL EXPENSES</b>		<u>(200,343,665)</u>	<u>(104,088,772)</u>
<b>(LOSS) / INCOME FROM OPERATIONS</b>		<u>(119,608,036)</u>	<u>2,362,367</u>
Financial charges		(29,538,073)	(33,163,008)
Other expenses, net	20	(507,435)	(326,134)
<b>LOSS BEFORE ZAKAT AND INCOME TAX AND NON-CONTROLLING INTERESTS</b>		<u>(149,653,544)</u>	<u>(31,126,775)</u>
Zakat	21	(3,572,768)	(9,900,000)
<b>LOSS BEFORE NON-CONTROLLING INTEREST</b>		<u>(153,226,312)</u>	<u>(41,026,775)</u>
Non-controlling interests		49,525,448	17,954,283
<b>NET LOSS FOR THE YEAR</b>		<u>(103,700,864)</u>	<u>(23,072,492)</u>
<b>(Loss) / earnings per share:</b>	15		
<i>Attributable to:</i>			
(Loss) / income from operations		(1.99)	0.04
Net loss for the year		(1.73)	(0.38)

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

**MIDDLE EAST SPECIALIZED CABLES COMPANY**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(Amounts in Saudi Riyal)

	<i>Note</i>	<i>For the year ended 31 December</i>	
		<u>2015</u>	<u>2014</u>
<b>OPERATING ACTIVITIES</b>			
Loss before zakat and income tax and non-controlling interest		(149,653,544)	(31,126,775)
<i>Adjustments to:</i>			
Depreciation and amortization		41,955,071	42,030,667
Impairment of fixed assets	19	61,484,700	-
Finance charges		23,169,891	26,206,560
Provision for doubtful receivables	5	22,324,852	13,812,595
Provision for doubtful retention receivables and impairment	6	8,629,833	-
Provision for slow moving inventories	7	19,611,938	6,141,985
Realized gain from held for trading investments		-	(1,571,129)
Loss / (gain) from sale of available for sale investments		1,623,580	(69,386)
Gain from sale of fixed assets		-	(147,168)
Provision for employees' end of service benefits		9,141,830	5,543,268
		<u>38,288,151</u>	<u>60,820,617</u>
<i>Changes in operating assets and liabilities:</i>			
Trade receivables		47,075,230	(7,597,820)
Retention receivables		(767,353)	21,652,739
Advances, prepayments and other current assets		1,862,413	(3,207,498)
Inventories		2,656,326	(5,429,384)
Accounts and notes payable		9,587,315	(18,245,078)
Due to a related party		395,499	(1,489,873)
Accrued expenses and other current liabilities		(2,604,811)	(1,366,662)
Employees' end of service benefits paid		(1,881,475)	(2,256,642)
Zakat and income tax paid	21	(8,928,513)	(3,224,132)
<b>Net cash from operating activities</b>		<u>85,682,782</u>	<u>39,656,267</u>
<b>INVESTING ACTIVITIES</b>			
Held for trading investments		-	11,393,739
Proceeds from sale of available for sale investments		3,221,582	2,078,337
Proceeds from sale of fixed assets		-	2,054,785
Additions to fixed assets		(8,668,662)	(9,547,349)
Addition to intangible assets		-	(1,350,000)
<b>Net cash (used in) from investing activities</b>		<u>(5,447,080)</u>	<u>4,629,512</u>
<b>FINANCING ACTIVITIES</b>			
Proceeds from short term loans		244,543,561	309,866,383
Repayments of short term loans		(261,913,434)	(282,426,290)
Proceeds from long term loans		6,714,415	2,016,327
Repayments of long term loans		(41,624,435)	(53,181,716)
Finance charges paid		(19,295,201)	(21,924,692)
<b>Net cash used in financing activities</b>		<u>(71,575,094)</u>	<u>(45,649,988)</u>
<b>INCREASE/(DECREASE) IN CASH AND BANK BALANCES</b>		<b>8,660,608</b>	<b>(1,364,209)</b>
Cash and bank balances at the beginning of the year		26,288,775	27,652,984
<b>CASH AND BANK BALANCES AT THE END OF THE YEAR</b>	4	<u>34,949,383</u>	<u>26,288,775</u>
<b>NON CASH TRANSACTIONS:</b>			
Unrealized loss on available for sale investments		938,837	143,458

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

**MIDDLE EAST SPECIALIZED CABLES COMPANY**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(Amounts in Saudi Riyal)

For the year ended 31 December 2015

	Equity attributable to the Company's shareholders					Total equity
	Share capital	Statutory reserve	Accumulated losses	Unrealized (loss) / gain on available for sale investments	Non-controlling interest	
Balance as at 1 January 2014	600,000,000	28,985,180	(124,397,506)	(668,456)	1,262,088	505,181,306
Net loss for the year	-	-	(23,072,492)	-	(17,954,283)	(41,026,775)
Unrealized gain on available for sale investment	-	-	-	70,309	73,149	143,458
<b>Balance as at 1 January 2015</b>	<b>600,000,000</b>	<b>28,985,180</b>	<b>(147,469,998)</b>	<b>(598,147)</b>	<b>480,917,035</b>	<b>464,297,989</b>
Net loss for the year	-	-	(103,700,864)	-	(103,700,864)	(153,226,312)
Unrealized loss transferred to income statement on sale	-	-	-	598,147	598,147	938,837
Net changes in non-controlling interest	-	-	(3,821,700)	-	(3,821,700)	(1,331,186)
<b>Balance as at 31 December 2015</b>	<b>600,000,000</b>	<b>28,985,180</b>	<b>(254,992,562)</b>	<b>-</b>	<b>373,992,618</b>	<b>310,679,328</b>

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

**MIDDLE EAST SPECIALIZED CABLES COMPANY**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**1 ORGANISATION AND ACTIVITIES**

Middle East Specialized Cables Company (“MESC”) (the “Company”) is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia, under commercial registration number 1010102402 dated 10 Jumada Awal 1413H (corresponding to 4 November 1992).

The Company and its subsidiaries mentioned below (collectively the “Group”) are engaged in the production and sale of flexible electric, coaxial, rubber and nylon coated wires and cables, telephone cables for internal extensions, computer cables, safety and anti-fire wires and cables and control and transmission of information cables.

The address of the Company's registered office is as follows:

Al Bait project, Building no. 1  
Salahuddin Street  
P.O.Box 585  
Riyadh 11383  
Saudi Arabia

The Company’s share capital is divided into 60 million shares as of 31 December 2015 (31 December 2014: 60 million shares) of SR 10 each.

The Company has control over the following subsidiaries as at 31 December 2015. The financial statements of these subsidiaries are consolidated in these consolidated financial statements.

Subsidiary	Legal status	Current legal ownership %		Country of Incorporation	Financial Year end
		2015	2014		
Middle East Specialized Cables Company- Jordan (MESC Jordan) (a)	Joint Stock Company	49	49	Jordan	31 December
MESC for Medium and High Voltage Cables Company (b)	Closed Joint Stock Company	69.14	69.14	Jordan	31 December
MESC - Ras Al-Khaimah	Limited Liability Company	100	100	United Arab Emirates	31 December

- a) The Company initially owned 53.7% shares in MESC Jordan, however during 2012, the Group transferred legal ownership of 1.82 million shares (being 4.7% share in the share capital of Middle East Specialized Cables Company – Jordan) to an Employee Fund. However, the Employee Fund does not have beneficial ownership in these shares. Under the terms of bye-laws of the Employee Fund, the shares are to be granted to employees of MESC Jordan. At year end none of these shares were granted to any of the employees and were held in trust by the Employee Fund.
- b) Ownership in MESC for Medium and High Voltage Cables Company is 57.5% directly and remaining indirectly through its subsidiary, Middle East Specialized Cables Company – Jordan.

**2 BASIS OF PREPARATION**

**a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA).



**MIDDLE EAST SPECIALIZED CABLES COMPANY**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

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**2 BASIS OF PREPARATION (continued)**

**b) Basis of measurement**

These consolidated financial statements have been prepared on the historical cost basis, except for the measurement at fair value of held for trading investments and available for sale investments, using the accrual basis of accounting and going concern concept.

The consolidated financials have been prepared on a going concern basis, which assumes that the Group will continue to operate and meet its customers, vendors and lenders commitments.

As at 31 December 2015, the Group has accumulated losses of SR 255 million, of these accumulated losses Jordanian operations have contributed SR 289 million loss, which has been offset by retained earnings of SR 34 million from the Saudi and UAE operations of the Group. The Saudi and UAE operations generate 78% of the Group's total revenue with all the operating segments, including operations in Jordan, generating gross operating profit. The Jordanian operations are operating at 25% of its normal capacity and therefore has resulted in a net loss situation for the Jordanian operations and the Group. The current year's losses have been impacted by an impairment loss of SR 61 million on Jordan's assets based on their recoverable amount (Note 19).

To stop the continual increase in the accumulated losses and to turn the Jordanian operations into profit, the management is taking the following corrective actions:

- right sizing of the operations;
- focusing on securing new business in the region; and
- renegotiating the credit facilities on favorable terms.

Management is confident that these measures will result in the Jordanian operations becoming profitable. Further the Group:

- overall is generating positive operating cash flows SR 85.7 million for 2015 (2014: SR 39.7 million);
- has a positive current ratio; and
- all segments are generating positive gross margins.

At this time, the Management is of the opinion that no asset is likely to be realized for an amount less than the amount at which it is recorded in the consolidated financial statement as at 31 December 2015.

Further, the Group companies also have syndicated loans. Under the terms of loan agreements, the banks have the right to demand immediate repayment of the loans if any covenants are not met. As of 31 December 2015, the Group was not in compliance with certain covenants, and the management is in the process of obtaining a waiver from the banks for such covenants. Loans where the covenant conditions have not been met have been included under current liabilities. The ongoing viability of the Group entities and their ability to continue as a going concern and meet their debts and commitments as they fall due are mainly dependent upon the subsidiaries being successful in:

- receiving the continuing credit facilities from its banks; and
- achieving forecast operational performance and generating sufficient future cash flows to meet its business objectives and financial obligations.

The Management is confident that the Group will be successful in the above matters and will be able to continue in operations for the foreseeable future and has accordingly prepared these consolidated financial statements on a going concern basis.

**MIDDLE EAST SPECIALIZED CABLES COMPANY**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

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**2 BASIS OF PREPARATION (continued)**

**c) Functional and presentation currency**

These consolidated financial statements are presented in Saudi Riyal (SR), which is the functional and reporting currency of the Company.

**d) Basis of consolidation**

These consolidated financial statements include the assets, liabilities and the results of the operations of the Company and its subsidiaries as stated in note 1 above.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Wherever necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group.

All intra-group transactions, balances, income and expenses including unrealized gain and losses entities are eliminated in full on consolidation.

Non-controlling interest represents the interest in subsidiary companies, not held by the Group which are measured at their proportionate share in the subsidiary's recognizable net assets. Transactions with Non-controlling interest holders are treated as transactions with parties external to the Group.

**e) Use of estimate and judgment**

The preparation of consolidated financial statements requires management to make judgment, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Significant areas where management has used estimates, assumptions or exercised judgment are as follows:

*i) Provision for slow moving inventory items*

The management makes a provision for slow moving and obsolete inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of period.

*ii) Impairment of available for sale investment*

The Group exercises judgment to calculate the impairment loss of available for sale investments as well as their underlying assets. This includes the assessments of objective evidence which causes other than temporary decline in the value of investments. Any significant and prolonged decline in the fair value of equity investments below its cost is considered objective evidence for the impairment. The determination of what is "significant and prolonged" requires judgment. The Group also considers impairment to be appropriate when there is evidence of deterioration in the financial health of investee, industry and sector performance, changes in technology, and operational and financing cash flow.

**MIDDLE EAST SPECIALIZED CABLES COMPANY**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**2 BASIS OF PREPARATION (continued)**

**f) Use of estimate and judgment (continued)**

*iii) Impairment of accounts receivable*

A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the account receivables are impaired. For significant individual amounts, assessment is made on individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time and past recovery rates.

*iv) Impairment of non-financial assets*

The Group assesses, at each reporting date or more frequently if events or changes in circumstances indicate, 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 is the higher of an asset's or cash generating unit's (CGU) fair value less cost to sell, and its value in use, and is determined for the individual asset, unless the asset does not generate cash inflows which are largely independent from other assets or groups.

Where 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 the fair value less costs to sell, an appropriate source is used, such as observable market price or, if no observable market price exists, estimated prices for similar assets or if no estimated prices for similar assets exist, it is based on discounted cash flow calculations.

**3 SIGNIFICANT ACCOUNTING POLICIES**

Certain of the prior year amounts have been reclassified to conform to the presentation in the current year, however no such reclassification were material to the overall presentation of the consolidated financial statements.

The significant accounting policies of the Group are set out below:

**a) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, cash at banks in current accounts and other short-term highly liquid investments with original maturities of three month or less, if any, which are available to the Group without any restrictions.

**b) Accounts receivable**

Accounts receivable are stated at original invoice amount less provision made for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of receivables. Bad debts are written off when identified, against its related provisions. The provisions are charged to consolidated statement of income and any subsequent recovery of receivable amounts previously written off are credited to the statement of income.

# MIDDLE EAST SPECIALIZED CABLES COMPANY

(A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### c) *Inventories*

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the weighted average method. Cost includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

In the case of finished goods and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value comprises estimated selling price in the ordinary course of business, less further production costs to completion and appropriate selling and distribution costs. Provision is made, where necessary, for obsolete, slow moving and defective stocks.

#### d) *Investments*

##### Available for sale investments

Available for sale investments principally consist of less than 20% share in quoted and unquoted equity investments including mutual funds investments, which are not held for trading purposes and where the Group does not have any significant influence or control. These are initially recognized and subsequently re-measured at fair value. Any changes in fair value are recognized in equity as fair value reserve until the investment is disposed. Any significant and prolonged decline in value of the available for sales investments, if any, is charged to the consolidated statement of income. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the consolidated balance sheet date. For investments where there is no active market, including investments in unquoted private equity, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models, otherwise the cost is considered to be the fair value for these investments.

##### Investment in an associate

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investment in associates are initially recognized at cost. The Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The financial statements include the Group's share of income and expenses and equity movement of the investment in associates from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate. The Group's share of profits or losses of the investee companies is credited or charged to the consolidated statement of income as "Share in results of Investment in Associates".

#### e) *Intangible assets - software*

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful life of 6 years. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

**MIDDLE EAST SPECIALIZED CABLES COMPANY**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**f) Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and any impairment in value. Land and capital work in progress are not depreciated. The fixed assets are depreciated on a straight line basis over the estimated useful lives of the assets.

The following annual rates are applicable:

	<u>Rate</u>
Buildings	5%
Plant and machinery	7%-25% (accessories and testing equipment)
Furniture, fixture and office Equipment	10%-15%
Vehicles	25%

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of fixed assets. All other expenditures are recognized in the consolidated statement of income when incurred.

**g) Provisions**

A provision is recognized if, as a result of past events, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probably that an outflow of economic benefit, will be required to settle the obligation.

**h) Trade Payable and Accruals**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**i) Employees' end of service benefits**

Employees' end of service benefits are accrued currently and are payable as a lump sum to all employees under the terms and conditions of local labour regulations on termination / end of their employment contracts. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the statement of financial position date. End-of-service payments are based on employees' final salaries and allowances and their cumulative years of service, as defined by the conditions stated in the local laws.

**j) Zakat and Income tax**

The Company is subject to zakat in accordance with the regulations of Saudi Department of Zakat and Income Tax ("DZIT"). Foreign subsidiaries are subject to the relevant Zakat and Tax regulations in their countries of domicile. Company's zakat and its share in the foreign subsidiaries zakat are accrued and charged to the consolidated statement of income currently. Foreign zakat and income tax attributable to the foreign subsidiaries shareholders are charged to non-controlling interests in accompanying consolidated financial statements. Additional zakat and foreign income tax liabilities, if any, related to prior years' assessments are accounted for in the period in which the final assessments are finalized.

**k) Statutory reserve**

In accordance with the Regulations for Companies in Kingdom of Saudi Arabia, the Company is required to transfer 10% of its net income for the year to a statutory reserve until such reserve equals 50% of its share capital. This statutory reserve is not available for distribution to shareholders.

**MIDDLE EAST SPECIALIZED CABLES COMPANY**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***l) Operating leases***

Payment under operating lease is recognized in the consolidated statement of income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

***m) Borrowings***

Borrowings are recognized at the proceeds received, net of transaction costs incurred. Borrowing costs that are directly attributable to the construction of a qualifying asset are capitalized up to stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, otherwise, such costs are charged to the consolidated statement of income.

***n) Revenue recognition***

Revenue from sales is recognized upon delivery of products by which the significant risks and rewards of ownership of the goods are transferred to the buyer and the Group has no effective control or continuing managerial involvement to the degree usually associated with ownership over the goods. Sales is recorded net of returns, trade discounts and volume rebates.

***o) Expenses***

Selling and marketing expenses are those arising from the Company's efforts underlying the marketing, selling and distribution functions. All other expenses, excluding cost of sales and financial charges, are classified as general and administrative expenses. Allocations of common expenses between cost of sales and selling, marketing, general and administrative expenses, when required, are made on a consistent basis. Direct costs pertaining to unutilized production capacity is charged to income statement and disclosed separately.

***p) Segment reporting***

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in producing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

***q) (Loss) / Earning per share***

(Loss) / earnings per share attributable to (loss) / income from operations and net (loss) / income for the year are calculated by dividing (loss) / income from operations and net (loss) / income for the year, respectively, by the number of shares outstanding.

***r) Foreign currency translation***

***Transactions and balances***

Transactions denominated in foreign currencies are translated to the functional currency of the Group entities at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency of the Group entities at the exchange rate ruling at that date. Exchange difference arising on translation are recognized in the consolidated statement of income currently.

***Foreign subsidiaries and associates***

The results and financial position of foreign subsidiaries and associates having reporting currencies other than functional currency of the Company, are translated into the functional currency. Cumulative adjustments resulting from the translations are reported as a separate component of equity.

When investment in a foreign subsidiary and associate is partially disposed off or sold, currency translation differences that were recorded in equity are recognized in consolidated income statement as part of gain or loss on disposal or sale.

**MIDDLE EAST SPECIALIZED CABLES COMPANY**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**  
(Amounts in Saudi Riyal)

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

*s) Contingent liabilities*

All possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly with the control of the Company; or all present obligations arising from past events but not recognized because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability; all should be assessed at each balance sheet date and disclosed in the Company's financial statements under contingent liabilities.

*t) Offsetting*

Financial assets and liabilities are offset and reported net in the consolidated balance sheet when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

**4 CASH AND BANK BALANCES**

	<u>2015</u>	<u>2014</u>
Cash in hand	240,933	339,913
Cash at bank – current account	34,708,450	25,948,862
	<u>34,949,383</u>	<u>26,288,775</u>

**5 ACCOUNT RECEIVABLES**

	<u>2015</u>	<u>2014</u>
Accounts receivables	436,613,757	484,413,767
Less: provision for doubtful receivables	<u>(66,948,742)</u>	<u>(45,348,670)</u>
	<u>369,665,015</u>	<u>439,065,097</u>

Movement of the provision for doubtful receivables was as follows:

	<u>2015</u>	<u>2014</u>
At the beginning of the year	45,348,670	34,679,369
Additions during the year	22,324,852	13,812,595
Amounts written off during the year	(724,780)	(3,143,294)
At the end of the year	<u>66,948,742</u>	<u>45,348,670</u>

**6 RETENTION RECEIVABLES**

	<u>2015</u>	<u>2014</u>
Retention receivables	51,066,841	50,299,488
Less: provision for doubtful retention receivables and impairment	<u>(8,629,833)</u>	-
	<u>42,437,008</u>	<u>50,299,488</u>
Presented in the balance sheet as follows:		
Retention receivables	33,482,146	26,994,471
Current portion of retention receivables	8,954,862	23,305,017
	<u>42,437,008</u>	<u>50,299,488</u>

**MIDDLE EAST SPECIALIZED CABLES COMPANY**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**  
(Amounts in Saudi Riyal)

**7 INVENTORIES**

	<u>2015</u>	<u>2014</u>
Finished goods	101,714,063	129,306,516
Raw and packing materials	104,092,601	79,561,735
Work in progress	31,949,626	35,420,505
Spare parts	18,930,855	18,225,765
Goods in transit	14,941,525	12,206,986
	<u>271,628,670</u>	<u>274,721,507</u>
Less: provision for slow moving inventories	<u>(39,742,844)</u>	<u>(20,567,417)</u>
	<u>231,885,826</u>	<u>254,154,090</u>

Movement in the provision of slow moving inventories was as follows:

	<u>2015</u>	<u>2014</u>
At the beginning of the year	20,567,417	25,426,218
Charge for the year	19,611,938	6,141,985
Written off during the year	<u>(436,511)</u>	<u>(11,000,786)</u>
At the end of the year	<u>39,742,844</u>	<u>20,567,417</u>

**8 ADVANCES, PREPAYMENTS AND OTHER CURRENT ASSETS**

	<u>2015</u>	<u>2014</u>
Advances to suppliers	10,718,173	9,697,325
Prepaid expenses	10,697,681	12,831,731
Margin deposits	2,351,863	3,104,412
Employee loans	1,792,265	2,174,245
Insurance receivables	633,688	579,606
Other current assets	1,512,403	2,512,350
	<u>27,706,073</u>	<u>30,899,669</u>

**9 AVAILABLE FOR SALE INVESTMENTS**

	<u>2015</u>	<u>2014</u>
Cost:		
At the beginning	4,845,162	6,854,114
Disposal during the year	<u>(4,845,162)</u>	<u>(2,008,952)</u>
At the end of the year	-	4,845,162
Unrealized losses:		
At the beginning	(938,837)	(1,082,294)
Net movement during the year	938,837	143,457
At the end of the year	-	(938,837)
Net carrying amount	-	<u>3,906,325</u>



**MIDDLE EAST SPECIALIZED CABLES COMPANY**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts in Saudi Riyal)

**10 FIXED ASSETS**

	2015					2014	
	Land	Building	Plant and machinery	Furniture, Fixture and office equipment	Motor vehicles	Capital work in progress	Total
<b>Cost</b>							
Balance as at 1 January 2015	19,159,730	246,731,951	641,727,643	24,414,787	15,086,513	4,769,043	936,208,985
Additions during the year	-	899,115	6,006,750	826,838	935,959	-	20,160,349
Transfer from work in progress	-	-	3,996,477	-	-	(3,996,477)	-
Disposal during the year	-	-	-	(211,914)	(320,008)	-	(4,479,667)
Balance as at 31 December 2015	<u>19,159,730</u>	<u>247,631,066</u>	<u>651,730,870</u>	<u>25,029,711</u>	<u>15,702,464</u>	<u>772,566</u>	<u>951,889,667</u>
<b>Accumulated depreciation and impairment</b>							
Balance as at 1 January 2015	-	83,059,250	311,850,568	20,650,288	13,702,636	-	390,231,251
Charge for the year	-	11,230,406	28,423,510	1,165,434	675,673	-	41,603,546
Eliminated on disposals	-	-	-	(211,914)	(320,008)	-	(2,572,055)
Impairment (see note 19)	-	-	61,484,700	-	-	-	-
Balance as at 31 December 2015	<u>-</u>	<u>94,289,656</u>	<u>401,758,778</u>	<u>21,603,808</u>	<u>14,058,301</u>	<u>-</u>	<u>429,262,742</u>
Net book value as at 31 December 2015	<u>19,159,730</u>	<u>153,341,410</u>	<u>249,972,092</u>	<u>3,425,903</u>	<u>1,644,163</u>	<u>772,566</u>	<u>428,315,864</u>
Net book value as at 31 December 2014	<u>19,159,730</u>	<u>163,672,701</u>	<u>329,877,075</u>	<u>3,764,499</u>	<u>1,383,877</u>	<u>4,769,043</u>	<u>522,626,925</u>

a) Buildings include a factory building with a net book value of SR 42 million (2013: SR 47 million) constructed on a land leased from the Saudi Industrial Property Authority (MODON) at a nominal rent. This lease expires on 7 Rabi Awal 1439H (corresponding to 25 November 2017). The renewal of the lease is at the option of the Company.

b) Fixed assets except land, with a net book value of SR 129 million (2014: SR 127 million) are mortgaged as a security against loans (Note 12).

# MIDDLE EAST SPECIALIZED CABLES COMPANY

(A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts in Saudi Riyal)

### 10 FIXED ASSETS (CONTINUED)

Depreciation charge for the year is as follows:

	<u>2015</u>	<u>2014</u>
Cost of sales	31,357,922	31,171,502
Cost of unutilized production capacity (note 18)	9,183,156	9,087,425
General and administrative expenses (note 17)	953,945	1,344,619
	<u>41,495,023</u>	<u>41,603,546</u>

### 11 INTANGIBLE ASSETS

Intangible assets represent costs relating to the information systems. Movement in the intangible assets were as follow:

	<u>2015</u>	<u>2014</u>
At the beginning of the year	1,754,533	831,653
Additions during the year	-	1,350,000
Amortization during the year	(460,048)	(427,120)
At the end of the year	<u>1,294,485</u>	<u>1,754,533</u>

### 12 BANK BORROWINGS

#### a) Short term loans

	<u>2015</u>	<u>2014</u>
Short term loan	91,723,832	83,593,705
Murabaha loan	49,500,000	75,000,000
	<u>141,223,832</u>	<u>158,593,705</u>

Murabaha and term loans are obtained from various financial institutions and are secured by promissory notes, corporate guarantees and pledge of certain fixed assets. The facilities bear financial charges on prevailing market rates at SIBOR plus margin as defined in the facilities agreements.

#### b) Long term loans

	<u>2015</u>	<u>2014</u>
Presented in the balance sheet as follows:		
Long term loans	296,933,623	335,248,422
Current portion of long term loans	160,880,703	157,475,924
	<u>457,814,326</u>	<u>492,724,346</u>

- i. During the year ended 31 December 2015, the subsidiary (Middle East Specialized Cables Company - Jordan) signed a new loan restructuring agreement (the "Agreement") with its bankers to restructure its short term loans, which has been converted into a syndicated loan. Please see Note 10 for mortgage details.
- ii. Current portion on long term loans include a loan balance of SR 115 million (2014: SR 142 million) which as per original loan contract is not due within 12 months however as the Loan agreements contains certain covenants that were not met during 2015 due to which the banks have the right to demand immediate repayment of the loans. Accordingly, this balance has been classified into current liabilities.

**MIDDLE EAST SPECIALIZED CABLES COMPANY**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**  
(Amounts in Saudi Riyal)

**13 RELATED PARTY TRANSACTIONS AND BALANCES**

The related parties of the Group consists of its shareholders, affiliate companies, directors and key management personnel. In the ordinary course of business, the Group enters into transactions with related parties which are based on prices and contract terms approved by the Group's management. Following are the details of major related party transactions during the year ended 31 December 2015 and 31 December 2014 along with their balances:

a) Transactions with related parties

Significant related party transactions during the year were as follows:

<u>Related party</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>2015</u>	<u>2014</u>
Middle East Fiber Cable Manufacturing Company	Affiliate	Raw material purchases	<u>2,893,069</u>	<u>2,008,435</u>
		Sales	<u>125,792</u>	<u>216,111</u>

The above transactions resulted in the following amounts due to a related party at balance sheet date:

b) Due to a related party

	<u>2015</u>	<u>2014</u>
Middle East Fiber Cable Manufacturing Company	<u>2,438,725</u>	<u>2,043,226</u>

c) Remuneration, compensation and bonuses of the key management personnel and attendance fee of Board Directors and members of Board Committees paid during the year ended 31 December 2015 was SR 6,207,295 (2014: SR 6,761,110).

**14 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

	<u>2015</u>	<u>2014</u>
Accrued expenses	<u>15,353,451</u>	22,896,522
Zakat payable	<u>12,473,324</u>	17,829,069
Advances from customers	<u>22,031,875</u>	11,999,223
Directors remuneration payable	<u>3,371,460</u>	2,760,399
Other current liabilities	<u>5,977,718</u>	7,808,478
	<u>59,207,828</u>	<u>63,293,691</u>

**15 (LOSS) / EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing (loss) / income from operations and net loss for the year by the weighted average number of issued shares of 60 million at 31 December 2015 ( 2014: 60 million shares).

**MIDDLE EAST SPECIALIZED CABLES COMPANY**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**  
(Amounts in Saudi Riyal)

**16 SELLING AND MARKETING EXPENSES**

	<u>2015</u>	<u>2014</u>
Salaries and related costs	16,485,966	14,026,802
Provision for doubtful receivables	22,324,852	13,812,595
Freight	8,800,926	5,341,277
Provision for doubtful retention receivables and impairment	8,629,833	-
Promotion and advertising	8,596,813	3,414,549
Travel	1,211,907	1,023,021
Rent	755,325	571,921
Others	4,326,454	3,680,998
	<u>71,132,076</u>	<u>41,871,163</u>

**17 GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>2015</u>	<u>2014</u>
Salaries and related costs	28,065,075	24,158,640
Consultancy and professional fees	5,814,451	2,120,935
SIDF and restructuring finance charges	2,656,190	2,165,082
Repairs and maintenance	1,172,260	1,879,163
Travel	1,202,819	1,379,801
Depreciation (note 10)	953,945	1,344,619
Utilities	485,445	1,188,788
Amortization of intangible assets	460,048	427,120
Other	3,060,487	3,597,162
	<u>43,870,720</u>	<u>38,261,310</u>

**18 COST OF UNUTILIZED PRODUCTION CAPACITY**

	<u>2015</u>	<u>2014</u>
Salaries and related costs	14,673,013	14,868,874
Depreciation (note 10)	9,183,156	9,087,425
	<u>23,856,169</u>	<u>23,956,299</u>

**19 IMPAIRMENT OF FIXED ASSETS**

As mentioned in note 2 (b), the Group is facing operational losses in Jordan. The challenging environment and geo political conditions have adversely affected the anticipated sales and margins which has resulted in under-utilization of plant capacity leading to operational losses in Jordan based Cash Generating Unit (CGU). During December 2015, the Company has carried out a detailed assessment of impairment of its CGU based in Jordan.

Based on the assessment, the fair value less cost to sell, determined by an independent valuer on disposal basis, is higher than value in use of the CGU. Accordingly, the recoverable amount of the CGU is based on the fair value less cost to sell. The fair value less cost to sell is lower than the carrying amount of the fixed assets by SR 61 million.

# MIDDLE EAST SPECIALIZED CABLES COMPANY

(A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts in Saudi Riyal)

### 19 IMPAIRMENT OF FIXED ASSETS (CONTINUED)

The impairment loss relates to the fixed assets and charged to the income statement as follows:

	Carrying amount before <u>impairment</u>	Impairment <u>loss</u>	Carrying amount after <u>impairment</u>
Plant and machinery - Middle East Specialized Cables Company- Jordan	73,729,844	(34,806,535)	38,923,309
Plant and machinery - MESC for Medium and High Voltage Cables Company	<u>116,421,750</u>	<u>(26,678,165)</u>	<u>89,743,585</u>
	<u>190,151,594</u>	<u>(61,484,700)</u>	<u>128,666,894</u>

### 20 OTHER EXPENSES, NET

	<u>2015</u>	<u>2014</u>
Loss /(gain) from sale of available for sale investments	1,623,580	(69,386)
Gain from held for trading investments	-	(1,571,129)
Mortgage fees for restructuring of loans	-	2,307,687
Gain from sale of fixed assets	-	(147,168)
Miscellaneous	<u>(1,116,145)</u>	<u>(193,870)</u>
	<u>507,435</u>	<u>326,134</u>

### 21 ZAKAT AND INCOME TAX

#### a) Status of assessment

Zakat has been calculated in accordance with the Department of Zakat and Income Tax (DZIT) Regulations. The Company has filed its Zakat declaration for the years up to 31 December 2014. No final assessment is received from DZIT since 2008 onwards.

#### b) Zakat components

The significant components of Zakat base for the year ended comprise of the following:

	<u>2015</u>	<u>2014</u>
Equity	542,181,200	563,410,783
Opening provisions and other adjustments	62,134,723	40,022,393
Book value of non-current assets	<u>(160,184,473)</u>	<u>(253,041,928)</u>
	444,131,450	350,391,248
Adjusted net income	<u>(58,487,945)</u>	<u>12,702,287</u>
<b>Zakat base</b>	<u>385,643,505</u>	<u>363,093,535</u>

The Company settles zakat for Saudi operations and investments in foreign subsidiaries separately. The above table shows the combined zakat base as at 31 December 2015. The zakat base for Saudi operations and investment in MESC - Ras Al-Khaimah were SR 335 million (2014: SR 321 million) and SR 51 million (2014: SR 42 million) respectively.

#### c) Zakat provision

Movement of the Company's Zakat provisions for the year ended 31 December comprise the following:

	<u>2015</u>	<u>2014</u>
Balance at beginning of the year	17,829,069	11,153,201
Zakat provision for the year	9,650,000	9,900,000
Reversal of zakat provision	(6,077,232)	-
Paid during the year	<u>(8,928,513)</u>	<u>(3,224,132)</u>
	<u>12,473,324</u>	<u>17,829,069</u>

# MIDDLE EAST SPECIALIZED CABLES COMPANY

(A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts in Saudi Riyal)

### 22 SEGMENT INFORMATION

- a) The Group's operations are carried out in three principal geographical locations, Kingdom of Saudi Arabia, Jordan and United Arab Emirates. Selected financial information as of 31 December and for the years then ended, summarized by geographic area, are as follows:

	Saudi Arabia	Jordan	United Arab Emirates	Elimination of Intersegment transactions and balances	Total
<i>As at and for year ended 31 December 2015</i>					
Sales	654,584,868	191,908,886	217,045,185	(175,851,908)	887,687,031
Gross profit	67,624,212	(3,234,521)	16,345,938	-	80,735,629
Cost of unutilized production capacity	-	(23,856,169)	-	-	(23,856,169)
Impairment of fixed assets	-	(61,484,700)	-	-	(61,484,700)
Depreciation and amortization	16,797,564	14,678,851	10,478,652	-	41,955,067
Finance charges	8,514,604	14,733,936	6,289,533	-	29,538,073
Net income / (loss) before non-controlling interest	(27,812,991)	(125,725,079)	311,758	-	(153,226,312)
Total assets	756,306,462	321,082,153	340,963,543	(282,098,504)	1,136,253,654
Total liabilities	382,313,844	446,792,493	137,116,059	(140,648,070)	825,574,326

	Saudi Arabia	Jordan	United Arab Emirates	Elimination of Intersegment transactions and balances	Total
<i>As at and for year ended 31 December 2014</i>					
Sales	786,277,321	179,478,875	164,236,138	(271,515,189)	858,477,145
Gross profit	84,290,645	7,364,331	14,796,163	-	106,451,139
Cost of unutilized production capacity	-	(23,956,299)	-	-	(23,956,299)
Depreciation and amortization	15,965,152	15,801,081	10,264,434	-	42,030,667
Finance charges	10,472,551	16,390,828	6,299,629	-	33,163,008
Net income / (loss) before non-controlling interest	1,325,806	(44,195,482)	1,842,901	-	(41,026,775)
Total assets	939,188,163	404,242,369	400,812,188	(415,247,818)	1,328,994,902
Total liabilities	458,271,123	392,492,111	131,261,452	(117,327,773)	864,696,913

- b) Sales from one customer of the Group's operations in KSA represented SR 80.3 million (2014: SR 62.5 million) of the group's total sales.

- c) The Group operations, primary segmentation, is on a geographical basis, with similar product ranges.

# MIDDLE EAST SPECIALIZED CABLES COMPANY

(A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts in Saudi Riyal)

### 23 COMMITMENT AND CONTINGENCIES

- a) At 31 December 2015, the Company has outstanding bank guarantees of SR 139.67 million (2014: SR 168.80 million) issued by the local and foreign banks in respect of performance bonds.
- b) At 31 December 2015, the Company has outstanding bank letter of credits of SR 45.05 million (2014: SR 30.67 million) issued by the Company's banks against certain purchase of raw materials and other supplies.

### 24 RISK MANAGEMENT

Financial assets of the Group consists of bank balance, accounts and others receivables, held for trading investments, available for sale investments and other assets. Financial liabilities of the Group consist from bank loans, account payables and other liabilities.

The Group activities expose the business to a number of key risks, which have the potential to affect its ability to achieve its business objectives.

#### Fair value risk

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. As the accompanying financial statements are prepared under the historical cost method, except for the revaluation of the available-for-sale at fair value through equity, differences may arise between the book values and the fair value estimates.

#### 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 and arises principally from Group, bank balances, accounts, and others receivable including due from related parties.

The credit risk in respect of bank balances is considered by management to be insignificant, as the balances are mainly held with reputable banks in the Kingdom of Saudi Arabia, Jordan and United Arab Emirates.

The Group attempts to monitor credit risk relating to accounts receivable by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. As at year end, the counterparties have sound financial position and have ability to repay their dues.

#### Market risk

Market risk is the risk to change in fair value of financial instruments from fluctuation in foreign exchange rates(currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

#### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyal (SR), United States Dollars (USD), United Arab Emirates Dirham (AED) and Jordanian Dinar (JD). The Group is not exposed to significant currency risk as SR, AED and JD are pegged to the USD.

# MIDDLE EAST SPECIALIZED CABLES COMPANY

(A Saudi Joint Stock Company)

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts in Saudi Riyal)

### 24 RISK MANAGEMENT (continued)

#### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group monitors interest rates on a currency-by-currency basis. The modified duration of the fixed income investments in each currency is used as an indicator of the sensitivity of the assets to changes in current interest rates. Interest rate risk exposure on bank loan is controlled by close monitoring of interest rate throughout the year. Immediate action is taken to stem any significant fluctuations.

#### Liquidity risk

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

### 25 MARKET CONDITION

The current year results may not be an accurate reflection of the results for future years due to any potential impact of the current local and global market and economic conditions.

### 26 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were authorized for issuance by Board of Director on 25 February 2016.