

**Jordan Steel Company and Its Subsidiaries**  
**Public Shareholding Company**  
**Amman – The Hashemite Kingdom of Jordan**

**Consolidated Statement of Cash Flows for the Year Ended December 31, 2017**

	<u>2017</u>	<u>2016</u>
	JD	JD
<b><u>Operating Activities</u></b>		
Loss for the year before tax	( 929,154)	(213,060)
<b>Adjustments:</b>		
Depreciation	575,048	1,026,282
Finance cost	1,100,823	714,616
Loss from impairment of inventories	-	30,000
Reversal of provision of legal obligation	( 91,628)	-
Gains from sale of property and equipments	-	( 8,350)
Provision of legal obligation	-	668,628
<b>Working capital changes:</b>		
Inventories	4,664,899	( 970,437)
Other debit balances	( 997,113)	551,105
Trade receivables	(2,611,639)	953,728
Due to shareholders	( 18,066)	( 69,995)
Other credit balances	(2,128,385)	4,022,194
Trade payables	153,880	(2,477,281)
Due to related parties	365,962	-
Paid for provision of legal obligation	( 195,759)	-
Income tax paid	( 15,963)	( 27,868)
<b>Net cash flows (used in) from operating activities</b>	<u>( 127,095)</u>	<u>4,199,562</u>
<b><u>Investing Activities</u></b>		
Purchase of property, plants and equipment	( 568,145)	( 787,244)
Proceeds from sale of property, plants and equipment	15,371	25,806
Addition on Investment lands	-	( 4,096)
<b>Net cash flows used in investing activities</b>	<u>( 552,774)</u>	<u>( 765,534)</u>
<b><u>Financing Activities</u></b>		
Bank overdraft	1,189,574	(3,632,825)
Finance cost	(1,100,823)	-
<b>Net cash flows from (used in) financing activities</b>	<u>88,751</u>	<u>(3,632,825)</u>
Net change in cash and cash equivalents during the year	( 591,118)	( 198,797)
Cash and cash equivalents at the beginning of the year	775,249	974,046
<b>Cash and cash equivalents at the end of the year</b>	<u>184,131</u>	<u>775,249</u>
<b><u>Information about non cash activity</u></b>		
Transferred from inventory to property, plants and equipment	(1,123,391)	-
Transferred from income tax deposit to income tax provision	( 68,000)	-

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Consolidated Statement of Changes in Shareholder's Equity for The Year Ended December 31, 2017

	Capital		Issuance premium		Statutory reserve		Accumulated losses		Total	
	JD		JD		JD		JD		JD	
<b>2016</b>										
Balance as at January 1, 2016	35,000,000		1,509,320		6,075,043		(2,373,259)		40,211,104	
Comprehensive income for the year	-		-		-		( 297,230)		( 297,230)	
Transferred to statutory reserve	-		-		13,677		( 13,677)		-	
<b>Balance as at December 31, 2016</b>	<b>35,000,000</b>		<b>1,509,320</b>		<b>6,088,720</b>		<b>(2,684,166)</b>		<b>39,913,874</b>	
<b>2017</b>										
Balance as at January 1, 2017	35,000,000		1,509,320		6,088,720		(2,684,166)		39,913,874	
Comprehensive income for the year	-		-		-		( 964,301)		( 964,301)	
Transferred to statutory reserve	-		-		24,419		( 24,419)		-	
<b>Balance as at December 31, 2017</b>	<b>35,000,000</b>		<b>1,509,320</b>		<b>6,113,139</b>		<b>(3,672,886)</b>		<b>38,949,573</b>	

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**Consolidated Statement of Comprehensive Income for the Year Ended December 31, 2017**

	<u>2017</u>	<u>2016</u>
	JD	JD
Sales	31,507,818	38,103,433
Cost of sales	<u>(30,718,361)</u>	<u>(35,998,607)</u>
<b>Gross profit</b>	<b>789,457</b>	<b>2,104,826</b>
Other revenues - Net	455,159	481,969
Selling expenses	( 61,369)	( 84,677)
Administrative expenses	( 1,103,185)	( 1,278,351)
Loss from impairment of inventories	-	( 30,000)
Finance cost	( 1,100,823)	( 714,616)
Reversal of provision of legal obligation	91,628	-
Provision of legal obligation	-	( 668,628)
Prior years sales tax	( 21)	( 23,583)
<b>Loss for the year before tax</b>	<b>( 929,154)</b>	<b>( 213,060)</b>
Income tax	( 34,184)	( 84,170)
Prior years income tax paid	( 963)	-
<b>Comprehensive income for the year after tax</b>	<b>( 964,301)</b>	<b>( 297,230)</b>
<b>Earnings per share from loss</b>	<u>(0/028) JD /share</u>	<u>(0/008) JD /share</u>

**Jordan Steel Company and Its Subsidiaries**  
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**Consolidated Statement of Financial Position as of December 31, 2017**

	2017	2016
	JD	JD
<b><u>Assets</u></b>		
<b>Non-Current Assets</b>		
Property, plants and equipments	40,430,915	39,329,798
Investment lands	934,131	934,131
<b>Total Non-Current Assets</b>	<b>41,365,046</b>	<b>40,263,929</b>
<b>Current Assets</b>		
Inventories	11,442,892	17,231,182
Other debit balances	4,232,638	3,303,525
Trade receivables	7,886,409	5,274,770
Cash and cash equivalents	184,131	775,249
<b>Total Current Assets</b>	<b>23,746,070</b>	<b>26,584,726</b>
<b>Total Assets</b>	<b>65,111,116</b>	<b>66,848,655</b>
<b><u>Shareholders' Equity and Liabilities</u></b>		
<b>Shareholders' Equity</b>		
Authorized, issued and paid – in capital	35,000,000	35,000,000
Issuance premium	1,509,320	1,509,320
Statutory reserve	6,113,139	6,088,720
Accumulated losses	( 3,672,886)	(2,684,166)
<b>Total Shareholders' Equity</b>	<b>38,949,573</b>	<b>39,913,874</b>
<b>Current liabilities</b>		
Provision of legal obligation	381,241	668,628
Due to shareholders	1,305,645	1,323,711
Other credit balances	5,763,466	7,940,667
Trade payables	1,834,829	1,680,949
Banks overdraft	16,510,400	15,320,826
Due to related parties	365,962	-
<b>Total liabilities</b>	<b>26,161,543</b>	<b>26,934,781</b>
<b>Net Shareholders' Equity and liabilities</b>	<b>65,111,116</b>	<b>66,848,655</b>

Khattab & Co.

**PKF**

Accountants &  
business advisers

**Report on Other Legal and Regulatory Requirements**

The Company maintains proper accounting records, and the audited consolidated financial statements and the financial information stated in the attached are consistent with these records .We recommend the general assembly to approve them.



PKF – Jordan  
Khattab & Co.

**PKF**

Mohammed Khattab  
(License No.730)

**Khattab & Co.**

Amman – The Hashemite Kingdom of Jordan  
March 12, 2018

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matters or when, in extremely rare circumstances, we determine that a matters 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.

- In our previous qualified audit report to the financial statements dated on 28 January 2017, our qualified opinion was based on that the Group did not apply the International Financial Reporting Standard No 5 "Non-current Assets held for sale and discontinued operations " over property, plant and equipment and inventory items. The Group has carried out the appropriate accounting treatment of these items and therefore the qualified opinion has not been included in these financial statements.

#### **Other information**

- Management is responsible for Other Information. Other Information includes information contained in the company's annual report for the year 2017, except for the consolidated financial statements and our opinion over them. Our opinion on the consolidated financial statements does not include Other Information and we do not express any assurance about Other Information.
- In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information 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.
- If, based on the work that we have performed, we conclude that there is a material misstatement of this other information, then we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

#### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

To validate the inventory valuation, we have the following key actions:

- Inspected the basis for inventory valuation and also examined whether there is an obsolescence or impairment in the value of inventory in the year 2017
- Tracked sales invoices made in the months of January and February 2018 for the parent company and its subsidiaries and examined whether the selling value of the stock of finished goods is higher than the cost of the stock of finished goods as of December 31, 2017

Accordingly, we made sure that the company's management has evaluated the inventory at its fair value and there was no need to recognize a loss for the low stocks in Jordan Steel Company and its subsidiaries.

**Key audit matters**

**Existence and valuation of inventories**

B. Obligations may arise from the legal cases against or for the Group in respect to legal and tax disputes and the consequent interests and penalties. These amounts may be material as determining such obligations, due to their nature, are subject to diligence and judgment by the management and legal advisors of the group's management. Therefore, the process of determining contingent liabilities is important to our audit.

Disclosures regarding contingent liabilities and lawsuits are set out in note (24) to the financial statements.

**Other matters**

- Without qualifying our opinion and based on the General Assembly extraordinary meeting No (2/ 2014) which held on 31 March 2014, it was voluntary decided to liquidate Jordan Steel Engineering Industries (Limited Liability subsidiary company), the legal procedures have not been completed for the liquidation at the Ministry of Industry and Trade and relevant official bodies until the date of issuance these consolidated financial statement.

**How our audit address the matters**

B. The audit procedures include evaluating the internal procedures used to determine these obligations and reviewing the correspondences with the regulators by the management and the legal advisors of the Group on all material issues. Therefore, we discussed important issues with the group's management and legal counsel, In addition to obtaining an opinion from the Company's independent legal counsel on all material issues with determining of the probability of loss or gain. We have also assessed the adequacy and appropriateness of the provisions as well as the disclosures prepared by management.



### **Emphasis paragraph**

Without considering this as an additional qualification in our opinion, we draw attention to Note No. (9) of the consolidated financial statements. We emphasize on Trade Receivable in the books of Consolidated Jordan Company for Steel Industry (subsidiary) amounting to 1,146,598 JD with a provision of 225,000 JD only against it. According to the company's lawyer letters, a final court decision was issued on Jan 30, 2018 declaring the court's conclusion and its decision to imprison the defendant for three years.

However, there is a lawsuit filed against the bank which accepted these checks. As stated in the lawyer's letter "the Consolidated Jordanian Company for steel industry LTD" has a good opportunity to collect a good compensation from the defendant "the bank" in the lawsuit filed against him. The basis of this lawsuit is based on the technical report to show that checks were fraudulent and to determine the amount of damage that is subject to this lawsuit, in the opinion of the company's lawyer it is likely that the experience report regarding forgery is most probably in favor of the Consolidated Jordanian Company for steel industry LTD because there is a previous experience report that had proven that forgery was perpetrated in the criminal case.

As remarked in Note (24) there are several tax cases against some of the group companies and these cases are still pending before the courts.

### **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 our qualified opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for Qualified Opinion Section.

#### **Key audit matters**

##### **Existence and valuation of inventories**

A. Total inventories of 11,442,892 JD represent 17% of the total assets of Jordan Steel Company and its subsidiaries. These inventories mainly consist of finished goods, spare parts, and raw material which exist in the company's warehouses. Inventories are valued at cost or net realizable value whichever is less.

Furthermore, inventories are an important factor to consider in our procedures on revenues cycle and cost and goods sold cycle and therefore, it has been considered as a key audit matters.

##### **How our audit address the matters**

A. The audit procedures carried out to check the actual existence of inventories focused mainly on the examination of internal controls over inventories cycles that are adopted by the management of Jordan Steel Company, especially the annual physical inventory procedures. The procedures of annual physical inventory were carried out by the company's management. We were present during the annual physical inventory at the company's warehouses and we compared the samples taken by us with the balances of physical inventory carried out by the company's management.

**Independent Auditors' Report**  
**Shareholders' of Jordan Steel Company and Its Subsidiaries**  
**Public shareholding company**  
**Amman – The Hashemite Kingdome of Jordan**

**Qualified Opinion**

We have audited the accompanying consolidated financial statements of Jordan Steel Company (Public shareholding Company) and Its Subsidiaries which comprises of the consolidated statement of financial position as at December 31, 2017, and the related consolidated statements of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matters described in the basis for qualified opinion section of our report the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

**Basis for qualified Opinion**

The management of Consolidated Jordanian Company for Steel Industry – a subsidiary – did not recognize the depreciation expense, estimated as JD 134,885, on the "Spare Parts" item which is stated in the financial statement as an amount of JD 1,123,391 as of 31 December 2017. In addition the company did not recognize the depreciation expense of the buildings, constructions, roads, squares, furniture, machines, vehicles and cars items for the year 2015, which is estimated as JD 171,165. This is a violation of IAS 16 'property, plant and equipment' as this leads to an increase in the value of the accumulated losses with the same amounts mentioned above.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board of accountants' (Code of Ethics for Professional Accountants) in addition to the ethical requirements that are relevant to our audit of the financial statements in Jordan, 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 qualified opinion.

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# **Jordan Steel Company and Its Subsidiaries**

Public Shareholding Company

Amman – Hashemite Kingdom of Jordan

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**Jordan Steel Company and Its Subsidiaries**  
Public Shareholding Company

**Consolidated Financial Statements  
and  
Independent Auditors' Report  
for The Year Ended December 31, 2017**

Amman – Hashemite Kingdom of Jordan





Meltshop • Rolling Mill • Cut & Bend • Wire Mesh

### **Jordan Steel Group**

- **Jordan Steel P.L.C.**
- **Consolidated Jordanian Co. for Steel Industry Ltd.**
- **Modern Wire Mesh Co. W.L.L.**
- **Ammoun Steel Trading Co. L.L.C**
- **Jordan Steel Engineering Industries W.L.L. (Under Liquidation)**

Amman – Hashemite Kingdom of Jordan