



Audit Committee Report

To the general assembly of the company

For the fiscal year ending on December 31, 2022 AD

In the name of Allah, the Merciful, the Compassionate

Praise be to Allah, and prayers and peace be upon His Prophet Muhammad, upon him be the best prayer and peace.

Honorable shareholders of Ash-Sharqiyah Development Company,

Peace, mercy and blessings of Allah be upon you

Introduction

This report has been prepared pursuant to the provisions of Article (52) of the Corporate Governance Regulations issued by the Board of the Capital Market Authority pursuant to Resolution No. 8-16-2017 dated 16/5/1438 AH corresponding to 13/2/2017 AD based on the Companies Law issued by Royal Decree No. M/ 3, dated 1/28/1437 AH, amended by Capital Market Authority Board Resolution No. 8-5-2023, dated 6/25/1444 AH, corresponding to 1/18/2023 AD, based on the Companies Law issued by Royal Decree No. M/132 dated 1/12/1443 AH, Which provides for monitoring the company's business, verifying the integrity and integrity of reports and financial statements, preparing a report on its opinion regarding the adequacy of the internal control system in the company and implementing it effectively, supervising the application of appropriate control systems for compliance and governance, and submitting any recommendations to the Board of Directors that would activate and develop the system to achieve the objectives The company protects the interests of owners and investors with high efficiency and reasonable cost. Accordingly, the Audit Committee of the Eastern Development Company is pleased to present to the honorable shareholders of the company its annual report for the fiscal year ending on December 31, 2022 AD, which includes its opinion on the adequacy of the internal control system in the company, and the work carried out by the committee that falls within the scope of its competence, based on the statutory requirements Related.

My fellow contributors

Your esteemed assembly, in its meeting on Jmd.1 1st 1442 AH corresponding to Jan 1st 2020, approved the formation of the Audit Committee and its duties and controls for its work for the period from the date of the assembly's meeting to the date of the end of the current Board of Directors session on July 19th, 2023, and its members are as follows:



1. Eng. Mansour Al-Ghamdi (Chairman of the Committee).
2. Mr. Abdul Karim Ash-Shamikh (Member).
3. Dr. Jassem Al-Rumaihi (Member).
4. Mr. Bassam Al Baqawee (Member)

The member, Dr. Jassim Al-Rumaihi, resigned and the member, Mr. Bassam Al-Baqawi, was appointed on Rajab 21, 1444 AH, corresponding to February 12, 2023.

Committee meetings:

Accordingly, the committee has held five meetings up to the date of this report, the details of which are as follows:

Meeting number		Main item	Committee members			
			Mansour Alghamdi	AbdulKarim Ash-shamikh	Jassem Al-Rumaihi	Bassam Al Baqawee
First	08\03\2022	Discussing the observations of the external auditor for the issuance of the financial statements for the year 2021 AD	✓	✓	✓	
Second	23\03\2022	Discussing the financial statements for the year 2021 AD	✓	✓	✓	
Third in passing	18\05\2022	Discussion of the financial statements ending on March 31, 2022 AD (first quarter of 2022 AD)	✓	✓	✓	
Fourth	31\05\2022	Submitting external audit proposals to	✓	✓	✓	



		review the company's accounts and prepare data for the second quarter, third quarter, fiscal year 2022 AD, and the first quarter of 2023 AD				
Fifth	23\08\2022	Discussion of the financial statements ending on June 30, 2022 AD (second quarter of 2022 AD)	✓	✓	✓	
Sixth	01\11\2022	Discussing the financial statements ending on September 31, 2022 AD (third quarter of 2022 AD)	✓	✓	✓	
Seventh	28\03\2023	Discuss the financial statements for the year 2022 AD	✓	✓		✓
eighth	20\05\2023	Discussion of the financial statements ending on March 31, 2023 AD (first quarter of 2023 AD)	✓	✓		✓



And due to the circumstances of the Corona pandemic, the meetings were participated in remotely through the Zoom application, and the scope of the committee's work during the fiscal year 2022 was as follows:

- Ensure the adequacy and effectiveness of the company's internal control system based on the data of the external auditor.
- Ensure compliance with regulations relevant to the company's work.
- Discussing the annual financial statements for the year 2021 and the first quarter of 2022 with the external auditor.

Gentlemen Shareholders,

Based on the work plan approved by the Board of Directors, and on the efforts made by the Board of Directors to raise the company's capital by granting initial shares during the fiscal year 2022 after the approval of the Capital Market Authority on 11-28-2022 AD and the approval of the Extraordinary General Assembly on 05-08- 2023 AD, but it did not result in any financial events affecting the company's business until the preparation of this report, and the committee believes, and based on the external auditor's report, the company's management has reasonable expectations that the company will have the ability to survive as a going concern in the foreseeable future in accordance with the developments mentioned above, and where The company did not have any significant revenue, and therefore the work of the Audit Committee was limited to the following:

1. Reviewing and expressing an opinion on the annual financial statements. The financial statements for the second, third, and annual financial statements for the fiscal year 2022, based on a meeting with the financial department and the external auditor and submitting a recommendation to the Board of Directors for approval.
2. Studying and reviewing the nomination of the external auditor for the year 2023 for the company, which included sending invitations to external auditors licensed to audit the companies' accounts and ensuring their independence, as well as studying the analysis of the submitted offers, which resulted in the recommendation to nominate an independent external auditor for the company for an audit for the fiscal year 2023 until the end of the first quarter of 2024 for the company, the committee's recommendation has been submitted to the Board of Directors.

In addition to the limited activity of the company during the years 2020, 2021, and 2022, the Audit Committee adopted the two previous reports of the Audit Committee, taking into account the External Auditor's observations in the letter of management issued, which showed the Committee to be fundamentally weak in the effectiveness of the company's internal control system, we therefore place in your hands the main observations that, in our opinion, should be shared with shareholders and presented on



Weaknesses in the internal control system, the most important of which are:

1. Absence of internal audit management and risk management:

The role of effective internal audit is important to the success of achieving the goals of the committee, as members are unable to collect, review and examine information and reports to know their validity in a timely manner and express an opinion on them. In addition, the presence of an internal audit department is a requirement of the Capital Market Authority for listed joint stock companies, and in the current situation, the absence of operational activities is not a fundamental observation.

2. There is a weakness in the internal monitoring and control and the company's corporate governance system:

- There is no matrix of approved powers for the executive management, and there are no policies and procedures in the company.
- The company's corporate governance regulations must be updated.
- Lack of access to some important reports, due to the failure to update the company's accounting system program.

3. There is a significant shortage of administrative cadres and competencies:

There is no human resources manager or sales and business development manager, and we believe that in the company's current situation it is appropriate in light of the lack of liquidity to carry out operational work, but after raising the capital, this must be taken into account.

4. Inadequate insurance coverage and expiration of insurance contracts

5. Lack of discretionary budgets:

It is one of the most important planning and control tools, which helps in measuring and following up performance, which may hinder the management in developing its plans and strategy, and this may cause the loss of some business and the company's spending in the wrong places.



My fellow contributors:

Conclusion:

Based on the foregoing,

We recommend taking the above observations and working to implement them in a way that serves the interests of the company in the short and long term, in addition to what was stated in the report and letter of observations received from the external auditor for the fiscal years ending on December 31, 2021 and the year 2022. And given that the attention of the external auditor was drawn to the existence of material uncertainty and great doubt about The company's ability to remain continuous and manage the necessary liquidity to fulfill its obligations when due, with the cessation of the main activity of the company and the failure to achieve any sales during the year and the volume of losses announced during the year 2022, however, and based on the work plan approved by the Board of Directors, and the approval of the Capital Market Authority on 11-28 -2022 AD to raise the company's capital by granting priority shares and after the approval of the Extraordinary General Assembly on 08-05-2023 AD, but it did not result in any financial events affecting the company's business until the preparation of this report, and the management believes, and based on the report of the external auditor, The management of the Company has reasonable expectations that the Company will have the ability to survive as a going concern for the foreseeable future subject to the approval of the capital increase which will allow the Company to commence its operations.

Yours sincerely,

Eng. Mansour Abdulkhaliq Alghhamdi

Chairman of the Committee

The members of the Audit Committee approved this report by passing on May 25, 2022 and submitting the report to the Board for information and guidance.