Saudi Real Estate Company and its Subsidiaries
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

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Independent auditor's report
To the shareholders of Saudi Real Estate Company
(A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Saudi Real Estate Company (the "Company") and its subsidiaries (the "Group"), which comprise of the consolidated statement of financial position as at 31 December 2019, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to these 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 2019, 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 the 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 for the current year. 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 listed below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Independent auditor's report
To the shareholders of Saudi Real Estate Company
(A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Liquidity management A fundamental principle in the preparation of the consolidated financial statements in accordance with IFRS is the assumption that an entity will continue in existence as a going concern, which contemplates the realisation of assets and settlement of liabilities occurring in the ordinary course of business. As shown in the consolidated statements of financial position, the current liabilities of the Group exceeded its current assets by SR 3,102 million. The consolidated financial statements have been prepared on a going concern basis. We considered this as a key audit matter as the management's assessment of whether the Group will have available sufficient funding to be able to continue meeting its obligations are important for the going concern assumption and, as such, is considered a significant aspect of our audit. This assessment is largely based on the expectations made by management that can be influenced by subjective elements such as estimated future cash flows and forecasted results. Refer to note 38 "liquidity risk" to the consolidated financial statements.	*Our audit procedures comprised, amongst others:* • Reviewed the management's cash flows forecast to understand the approach used in preparation of the cash flows for the purpose of the going concern assessment. • Tested the reasonableness of the assumptions used in the cash flows forecast against historical performance and the Group's strategic plans for the coming 12 months. • Reviewed the existing loan facilities agreements (including any amendment and extension) relating to loan covenants, unutilised borrowings and others. • Reviewed correspondence with lenders during the current year and subsequent period in connection to the renewal of loan facilities and any breach with loan covenants. • Ensured adequacy of the related disclosures in the notes to the consolidated financial statement.

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Independent auditor's report
To the shareholders of Saudi Real Estate Company
(A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of investments properties As at 31 December 2019, investments properties amount to SR 5,986 million representing around 83% of the Group's total assets, which are stated at cost, net of accumulated depreciation and impairment, if any. For the purpose of impairment assessment and the disclosure of the fair value in the Group's consolidated financial statements, investment properties are valued externally by an accredited independent external valuer ("the Valuer"). The valuation uses common valuation techniques and methods, which are based on assumptions and estimates that relate to several factors that impact the fair value of the investment properties. We considered this as a key audit matter, as the impairment assessment of investments properties requires significant judgment by management and also involves key estimates. Also, the potential impact of investment properties' impairment could be material to the Group's consolidated financial statements. Refer to the summary of significant accounting policies to the consolidated financial statements (note 4) and for the details of investment properties and fair values (note 15)	*Our audit procedures comprised, amongst others:* • Compared the fair value of investment properties held at year end to the valuation results included in the valuation report provided by the Valuer. • Assessed the Valuer's objectivity, independence and experience. • Ensured that proper valuation technique and methodology are adopted by the Valuer. • Reviewed on a sample basis, the valuation of certain investment properties and assessed the reasonableness of key assumptions that were used in determining the fair values. • Ensured that the consolidated financial statements contain adequate disclosures regarding the valuation of investments properties.

Independent auditor's report
To the shareholders of Saudi Real Estate Company
(A Saudi Joint Stock Company) (continued)

Other information included in The Group's 2019 Annual Report
Other information consists of the information included in the Group's 2019 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 2019 annual report is expected to become 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 2019 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 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.

These charged with governance are responsible for overseeing the Group's financial reporting process.

Independent auditor's report
To the shareholders of Saudi Real Estate Company
(A Saudi Joint Stock Company) (continued)

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.

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Independent auditor's report
To the shareholders of Saudi Real Estate Company
(A Saudi Joint Stock Company) (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- 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.

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 year 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

Rashid S. AlRashoud
Certified Public Accountant
Licence No. (366)
Riyadh: 7 Sha'aban 1441H
(31 March 2020)

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2019
(In Saudi Riyals Thousands, unless otherwise indicated)

	Notes	2019	2018
Revenue	7	**338,814**	296,569
Cost of revenue	8	**(167,665)**	(111,369)
Gross profit		**171,149**	185,200
General and administrative expenses	9	**(223,691)**	(122,017)
Selling and marketing expenses	10	**(45,837)**	(24,147)
Operating (loss) income		**(98,379)**	39,036
Write-off of capital work-in- progress	15	**(63,135)**	-
Decline in value of investment properties	15	**(34,377)**	-
Impairment loss on Sukuk	17	**-**	(206,338)
Impairment provision for prepayments and other receivables	20	**(10,865)**	(20,000)
Financial charges	11	**(44,825)**	(49,193)
Gain (loss) on revaluation of investments designated at FVPL	18	**12,171**	(893)
Gain on disposal of investments designated at FVPL	18	**23,019**	22,980
Share of profit of an associate	16	**17,446**	19,743
Gain on revaluation of derivatives financial instruments	12	**-**	13,156
Dividends income		**9,148**	2,802
Other income		**4,628**	1,506
Income from short-term deposits and Sukuk		**-**	953
Loss before zakat		**(185,169)**	(176,248)
Zakat	35	**(12,877)**	(21,028)
Net loss for the year		**(198,046)**	(197,276)
Attributable to:			
Equity holders of the parent company		**(186,351)**	(183,069)
Non-controlling interests	26	**(11,695)**	(14,207)
		(198,046)	(197,276)
Loss per share (SR):			
Basic and diluted loss for the year attributable to equity holders of the parent company	13	**(0.78)**	(0.76)

Chief Financial Officer — Managing Director — Chairman, Board of Directors

The attached notes 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019
(In Saudi Riyals Thousands, unless otherwise indicated)

	Notes	2019	2018
Net loss for the year		**(198,046)**	(197,276)
Other comprehensive loss:			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods (net of zakat):			
Net change in fair value of investments in equity instruments designated at FVOCI	18	**(4,756)**	(64,252)
Share of other comprehensive income of an associate	16	**1,705**	3,131
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(3,051)**	(61,121)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of zakat):			
Remeasurement (loss) gain on defined benefit plan	29	**(3,473)**	5,039
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**(3,473)**	5,039
Total other comprehensive loss for the year		**(6,524)**	(56,082)
Total comprehensive loss for the year (net of zakat)		**(204,570)**	(253,358)
Attributable to:			
Equity holders of the parent company		**(192,437)**	(239,151)
Non-controlling interests	26	**(12,133)**	(14,207)
		(204,570)	(253,358)

Chief Financial Officer　　Managing Director　　Chairman, Board of Directors

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019
(In Saudi Riyals Thousands, unless otherwise indicated)

	Notes	2019	2018
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	14	52,633	61,705
Investments properties	15	5,986,655	5,756,727
Intangible assets		13,830	11,713
Investment in an associate	16	243,141	235,657
Investments in equity instruments designated at FVOCI	18	384,722	403,248
Investments designated at FVPL	18	57,109	270,838
Right-of-use assets	30	74,529	-
TOTAL NON-CURRENT ASSETS		6,812,619	6,739,888
CURRENT ASSETS			
Derivative financial instruments	12	-	2,369
Trade receivables	19	96,987	88,763
Prepayments and other receivables	20	98,946	172,632
Inventories		6,022	6,059
Cash and cash equivalents	21	184,480	331,724
TOTAL CURRENT ASSETS		386,435	601,547
TOTAL ASSETS		7,199,054	7,341,435
EQUITY AND LIABILITIES			
EQUITY			
Share capital	22	2,400,000	2,400,000
Statutory reserve	23	720,000	720,000
Contractual reserve	24	10,051	10,051
(Accumulated losses) retained earnings		(159,043)	27,308
Other reserves	25	(2,228)	3,858
Equity attributable to equity holders of the parent company		2,968,780	3,161,217
Non-controlling interests	26	(2,491)	9,642
TOTAL EQUITY		2,966,289	3,170,859
NON-CURRENT LIABILITIES			
Long-term loans	27	645,411	644,134
Loan from a related party	28	-	680,249
Employees' defined benefit obligations	29	22,629	18,426
Lease liabilities	30	75,834	-
TOTAL NON-CURRENT LIABILITIES		743,874	1,342,809
CURRENT LIABILITIES			
Trade payables	31	91,068	86,633
Accruals and other liabilities	32	169,725	101,429
Unearned revenue	33	103,537	139,897
Long-term loans – current portion	27	2,074,077	2,130,797
Loan from a related party – current portion	28	1,012,647	328,401
Zakat provision	35	37,837	40,610
TOTAL CURRENT LIABILITIES		3,488,891	2,827,767
TOTAL LIABILITIES		4,232,765	4,170,576
TOTAL EQUITY AND LIABILITIES		7,199,054	7,341,435

Chief Financial Officer　　Managing Director　　Chairman, Board of Directors

The attached notes 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019
(In Saudi Riyals Thousands, unless otherwise indicated)

	Attributable to equity holders of the parent company							
	Share capital	*Statutory reserve*	*Contractual reserve*	*(Accumulated losses) / Retained earnings*	*Other reserves*	*Total*	*Non-controlling interests*	*Total equity*
As at 1 January 2018	**1,200,000**	**1,450,026**	**480,025**	**270,377**	**59,940**	**3,460,368**	**23,849**	**3,484,217**
Net loss for the year	-	-	-	(183,069)	-	(183,069)	(14,207)	(197,276)
Other comprehensive loss for the year	-	-	-	-	(56,082)	(56,082)	-	(56,082)
Total comprehensive loss for the year	-	-	-	(183,069)	(56,082)	(239,151)	(14,207)	(253,358)
Dividends (Note 40)	-	-	-	(60,000)	-	(60,000)	-	(60,000)
Capital increase (Note 22)	1,200,000	(730,026)	(469,974)	-	-	-	-	-
Balance as at 31 December 2018	**2,400,000**	**720,000**	**10,051**	**27,308**	**3,858**	**3,161,217**	**9,642**	**3,170,859**
Net loss for the year	-	-	-	(186,351)	-	(186,351)	(11,695)	(198,046)
Other comprehensive loss for the year	-	-	-	-	(6,086)	(6,086)	(438)	(6,524)
Total comprehensive loss for the year	-	-	-	(186,351)	(6,086)	(192,437)	(12,133)	(204,570)
Balance as at 31 December 2019	**2,400,000**	**720,000**	**10,051**	**(159,043)**	**(2,228)**	**2,968,780**	**(2,491)**	**2,966,289**

Chief Financial Officer

Managing Director

Chairman, Board of Directors

The attached notes 1 to 42 form an integral part of these consolidated financial statements.

Saudi Real Estate Company and its Subsidiaries
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019
(In Saudi Riyals Thousands, unless otherwise indicated)

	Notes	2019	2018
OPERATING ACTIVITIES			
Loss before zakat		**(185,169)**	(176,248)
Adjustments to reconcile loss before zakat to net cash flows:			
Depreciation of property and equipment and investments properties		**64,338**	59,128
Amortisation of intangibles		**2,380**	3,791
Amortisation of right-of-use assets	30	**1,379**	-
Share in profit of an associate	16	**(17,446)**	(19,743)
Expected credit losses provision	19	**12,878**	15,226
Gain of revaluation of derivatives financial instruments	12	-	(13,156)
Gain on disposal of investments designated as at FVPL	18	**(23,019)**	(22,980)
(Gain) loss from revaluation of investments designated as at FVPL	18	**(12,171)**	893
Write-off of capital work-in- progress	15	**63,135**	-
Decline in value of investment properties	15	**34,377**	-
Impairment provision for prepayments and other receivables	20	**10,865**	20,000
Impairment loss on Sukuk	17	-	206,338
Provision of employees' defined benefit obligations	29	**8,284**	4,839
		(40,169)	78,088
Working capital increase/decrease:			
Trade receivables		**(21,102)**	48,272
Derivative financial instruments		**2,369**	-
Prepayments and other receivables		**62,821**	(68,687)
Inventory		**37**	(3,090)
Trade payables		**4,435**	58,889
Accruals and other liabilities		**51,000**	35,440
Unearned revenue		**(36,360)**	(14,573)
Cash from operations		**23,031**	134,339
Employees' defined benefit obligations paid	29	**(7,554)**	(10,197)
Zakat paid	35	**(15,650)**	(4,955)
Financial charges paid		**(115,566)**	(98,723)
Net cash flows (used in) from operating activities		**(115,739)**	20,464
INVESTING ACTIVITIES			
Purchase of property and equipment	14	**(12,173)**	(17,193)
Purchase of investments designated as at FVPL		-	(270,838)
Proceeds from disposal of investments in equity instruments designated at FVOCI		**13,770**	-
Dividends received from an associate and investments in equity instruments designated at FVOCI		**11,667**	14,469
Proceeds from sale of investments designated at FVPL	18	**248,919**	377,173
Additions to intangible assets		**(4,497)**	(11,553)
Additions to investments properties		**(230,907)**	(591,460)
Proceeds from disposal of property and equipment		**1,699**	-
Net cash flows from (used in) investing activities		**28,478**	(499,402)
FINANCING ACTIVITIES			
Long term loans		**(55,443)**	648,089
Loan from a related party		-	14,107
Lease liabilities paid		**(4,540)**	-
Dividends paid	40	-	(60,000)
Net cash flows (used in) from financing activities		**(59,983)**	602,196
(Decrease) increase in cash and cash equivalents		**(147,244)**	123,258
Cash and cash equivalents at the beginning of the year		**331,724**	208,466
Cash and cash equivalents at the end of the year		**184,480**	331,724

Chief Financial Officer | Managing Director | Chairman, Board of Directors

The attached notes 1 to 42 form an integral part of these consolidated financial statements.

(In Saudi Riyals Thousands, unless otherwise indicated)

1. CORPORATE INFORMATION

Saudi Real Estate Company (the "Company" or the "Parent Company") is a Saudi Joint Stock Company, whose shares are publicly traded on the Saudi Stock Exchange. The Company was established pursuant to Royal Decree number M/58 dated 17 Rajab 1396H (corresponding to 15 July 1976), registered in Riyadh, Kingdom of Saudi Arabia under commercial registration No. 1010012539 dated 17 Jumada al-Alkhirah 1397H (corresponding to 4 June 1977). The Company's head office address is Olaya Road, P.O. Box 3572, Riyadh 11481, Kingdom of Saudi Arabia. The Company's duration is 130 Gregorian years and it started from the date of issuing the commercial registration, it could always be extended by the unusual General Assembly resolution before the duration ends by one year.

The Company is engaged in ownership of land suitable for construction and development, construction of residential and commercial buildings, for the purpose of selling or leasing out and providing project management services, purchase, production, necessary materials and equipment for construction and all related works.

The major shareholder of the Company and its subsidiaries (the "Group") is the Public Investments Fund (PIF) which owns 64.57% of the Group's shares, while the remaining shares, which represent 35.43%, are owned by several shareholders with less than 5% ownership.

The Company has invested in the following subsidiaries which are included in these consolidated financial statements:

Name		*Country of incorporation*	*Principal activities*	*Year of incorporation*	*Ownership percentage (directly or indirectly)*	
					2019	*2018*
Saudi Real Estate Construction Company (SRECC)	i	Saudi Arabia	Constructions and maintenance	2016	**60%**	**60%**
Saudi Real Estate Infrastructure Company (SREIC)	ii	Saudi Arabia	Constructions and maintenance	2017	**60%**	**60%**
Saudi Korean Company for Maintenance and Properties Management (SAKOM)	iii	Saudi Arabia	Maintenance and operation	2017	**60%**	**60%**
Alakaria Hanmi for Project Management (Hanmi)	iv	Saudi Arabia	Provide programs and projects management and lenders' technical advisory services	2017	**60%**	**60%**
Al Widyan Saudi Real State Company (WSREC)	v	Saudi Arabia	Developing Al Widyan project	2018	**100%**	**100%**
Alinma Alakaria Real Estate Fund	vi	Saudi Arabia	Development of real estate	2019	**100%**	-

(i) Saudi Real Estate Construction Company is a closed joint stock company registered in the Kingdom of Saudi Arabia under commercial registration number 1010466367 dated 15 Rabi Al Awal 1438H (corresponding to 14 December 2016). The Company is engaged in buildings construction and maintenance, construction projects management, detailed engineering designing, purchasing materials and executing the projects, it manages under the license of the General Investment Authority No. 10206371070302 dated 6 Shawwal 1437H (corresponding to 11 July, 2016).

(ii) Saudi Real Estate Infrastructure Company is a closed joint stock company registered in the Kingdom of Saudi Arabia under commercial registration number 1010469561 dated 6 Rajab 1438H (corresponding to 3 April 2017). The Company is engaged in road, bridge, and tunnel works, earthworks, and construction, extension, cleaning, maintenance and operation of water, sewerage and drainage networks. Also, construction, extension, and maintenance of distribution networks and stations for electrical power and gas, and telecommunication networks and communication towers, construction and maintenance of public parks and irrigation systems, and dam construction and maintenance and sale of prefabricated concrete.

(iii) Saudi Korean Company for Maintenance and Properties Management is a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration number 1010612687 dated 11 Safar 1439H (corresponding to 31 October 2017). The Company is engaged in operation and maintenance of buildings in accordance with the license issued from the General Investment Authority number (10214381076997) dated 29 Shawwal 1438 (corresponding to 23 July 2017).

1. CORPORATE INFORMATION (continued)

(iv) Alakaria Hanmi for Project Management is a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration number 1010612116 dated 21 Muharam 1439H (corresponding to 11 October 2017). The Company is engaged in providing project management services and advisory services for lenders in accordance with the license issued from the General Investment Authority number (10213381076825) date 29 Shawwal 1438 H (corresponding to 23 July 2017).

(v) Al Widyan Saudi Real Estate Company is a closed joint stock company owned by one person registered in the Kingdom of Saudi Arabia under commercial registration number 1010455071 dated 16 Thul-Qi'dah 1439H (corresponding to 29 July 2018). The Company is engaged in electricity work, gardens and parks maintenance, building construction, maintenance and operation of buildings, maintenance works, the operation of water and sanitation networks, the construction of roads, the construction of bridges, the construction of tunnels, the purchase, sale and lease of land and real estate, development and real estate investment activities, maintenance and operation of hospitals, medical centers and government and private clinics.

(vi) Alinma Alakaria Real Estate Fund is private fund created by an agreement between Inma for Investment (the "Fund Manager") a subsidiary of Alinma Bank and investors ("unit holder") in the Fund according to Shariah standards and controls approved by the Shariah Board of the Fund Manager. The principle investment objective of the Fund is to provide investors with capital growth over the medium and long-term by investing primarily in the real estate and related sectors in the Kingdom of Saudi Arabia. The Fund has appointed Al Inma Bank to act as its custodian, administrator and registrar of the Fund. The Fund was established on 25 Jumada Al-Ula 1440H (corresponding to 31 January 2019) as per approval from the Capital Market Authority (CMA). The terms and conditions of the Fund were issued on 25 Jumada Al-Ula 1438H (corresponding to 31 January 2019).

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and its interpretations as issued by the International Accounting Standards Board ("IASB") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by Saudi Organization for Certified Public Accountants (collectively referred to as "IFRS" as endorsed in Kingdom of Saudi Arabia").

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, investment in equity instruments designated at FVOCI and investments designated at FVPL that have been measured at fair value.

The consolidated financial statements are presented in Saudi Riyals which is also the functional currency of the Group. All values are rounded to the nearest thousand, unless otherwise indicated.

3. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries and are collectively referred as (the "Group") as stated in note (1).

Subsidiaries are entities controlled by the group. Control exists 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.

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.

3. BASIS OF CONSOLIDATION (continued)

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.

Income or loss and each component of Other Comprehensive Income (OCI) are attributed to the equity holders of the parent of the Group 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 income or loss. Any investment retained is recognised at fair value.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Group in preparing its consolidated financial statements:

Investment in an 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 or joint control are 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.

The consolidated statement of income 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 are eliminated to the extent of the interest in the associate.

The financial statements of the associate are 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 and joint venture. 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 and its carrying value for associate and joint venture, and then recognises the loss within "Share of profit of an associate" in the consolidated statement of income.

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 and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of income.

Current versus non-current classification of assets and liabilities

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.
- 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 after the reporting period.

All other assets are classified as non-current.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification of assets and liabilities (continued)

A liability is current when:

- It is expected to be settled in the normal operating cycle.
- 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.

Fair value measurement
The Group measures financial instruments such as derivatives, investment in equity instruments designated at FVOCI and investments designated at FVPL, at fair value at each reporting 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;
- 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, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised 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 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 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The specific recognition criteria described below must also be met before revenue is recognised.

Rental income

The Group is the lessor in operating leases. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of income due to its operating nature, except for contingent rental income which is recognised when it arises. Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income.

Tenant lease incentives are recognised as a reduction of rental revenue on a straight-line basis over the term of the lease. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the management are reasonably certain that the tenant will exercise that option.

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the consolidated statement of income when the right to receive them arises.

Service charges, management charges and other expenses recoverable from tenants

Income arising from expenses recharged to tenants is recognised in the period in which the compensation becomes receivable. Service and management charges and other such receipts are included in rental income gross of the related costs, as the directors consider that the Group acts as principal in this respect.

Dividends

Revenue is recognised when the Group's right to receive the payment is established (If it is probable that the economic benefits will flow to the group, and revenues can be measured reliably).

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as Investment in equity instruments designated at FVOCI and investments designated at FVPL, interest income is recorded using the effective interest rate (EIR) method. The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the consolidated statement of income.

General and administrative expenses

General and administrative expenses include direct and indirect costs that are not specifically part of cost of revenue or the selling, and marketing activities of the Group.

Selling and marketing expenses

Selling and marketing expenses comprise of all costs for selling and marketing the Group's products and include expenses for advertising, marketing fees and other sales related overheads.

Zakat and tax

Zakat is provided for the Company and its subsidiaries in the Kingdom of Saudi Arabia in accordance with the Regulations of General Authority of Zakat and Tax (the "GAZT") in the Kingdom of Saudi Arabia, and the provision is charged to the consolidated statement of income. Differences, if any, arising from the final assessment shall be settled during the period in which such assessment are issued.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under GAZT regulations.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments properties

Property investments are initially measured at cost. The fair value is determined on the basis of an annual valuation by an independent external valuer with recognized professional qualifications.

Capital work-in-progress are stated at cost, net of accumulated impairment losses, if any. Investments properties are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the investments properties and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of investments properties are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the investments properties as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in income or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

- Buildings 50 years
- Furniture and decorations 5 - 30 years

An item of investments properties and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised. The residual values, useful lives and methods of depreciation of investments properties are reviewed at each financial year end and adjusted prospectively, if appropriate.

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in income or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

- Buildings 14 years
- Machinery and equipment 5 years
- Furniture and decorations 5 years
- Computers 5 years
- Vehicles 4 years

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised. The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial period ended and adjusted prospectively, if appropriate.

Foreign currency

The Group's consolidated financial statements are presented in Saudi Riyals, 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 operation, the gain or loss that is reclassified to income or loss reflects the amount that arises from using this method.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency (continued)

Transactions and balances (continued)

Differences arising on settlement or translation of monetary items are recognised in income or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is classified to the consolidated statement of income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. 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 measured at fair value is treated in line with the recognition of gain or loss on change in fair value in the item (i.e., the translation differences on items whose fair value gain or loss is recognised in OCI or the consolidated statement of income are also recognised in OCI or the consolidated statement of income, respectively).

Leases
IFRS 16 – Leases

The Group has adopted IFRS 16 from its mandatory adoption date 1 January 2019 using the modified simplified transition approach as permitted under the specific transition provisions in the standard. As a result, comparatives have not been restated.

The Group assess whether a contract contains a lease, at inception of the contract. For all such lease arrangements the Group recognize right of use assets and lease liabilities except for the short term leases and leases of low value assets as follows:

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 re-measurement 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. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

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. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if 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 re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)
IFRS 16 – Leases (continued)
Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases of commercial buildings, accommodations and offices (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 commercial buildings, accommodations and offices that are considered of low value (i.e., below SR 20,000). 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.

Impact on adoption of IFRS 16 "Leases"
IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

In the current period, the Group has adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019.

The Group elected to use the practical expedient available on transition to IFRS 16 not to reassess whether a contract contains a lease or not, allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group also adopted the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

(a) Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
(b) Applied the exemption not to recognize right-of-use assets and liabilities for leases that are expiring during 2019.
(c) Excluded initial direct cost from measuring the right-of-use asset at the date of initial application.

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Prior to adoption of IFRS 16:

The Group has lease contracts for lands. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease based on the substance of the arrangement at the inception date.

A lease was classified as a finance lease that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liabilities so as to achieve a constant rate of interest on the remaining balance of the liabilities.

In an operating lease, the leased property was not capitalised and the lease payments were recognised as operating expense in the consolidated statement of profit or loss on a straight-line basis over the lease term. Any prepaid and accrued amounts were recognised under prepayments and other payables, respectively.

(In Saudi Riyals Thousands, unless otherwise indicated)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)
IFRS 16 – Leases (continued)

After adoption of IFRS 16:
Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. In accordance with the modified retrospective method of adoption, the Group applied IFRS 16 at the date of initial application. Under modified retrospective approach right-of use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. Accordingly, the comparative information is not restated.

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

	As at 1 January 2019
Assets	
Right-of-use assets	**75,908**
Liabilities	
Lease liabilities	**75,908**
Total effect on equity	-

Financial 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 an entity incurs in connection with the borrowing of funds.

Intangible assets
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 income 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 once 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

The Group amortizes the accounting system with a finite useful life using the straight-line method over 5 years. As at the reporting date, some parts of the system are still under implementation phase and are not available for use.

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.

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 income when the asset is derecognised.

Financial instruments
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.

i) Financial assets

Classification of financial assets depends on the Group's business model for managing its financial assets and the contractual terms of the cash flows. The Group classifies its financial assets as:

- Financial assets measured at amortised cost; or
- Financial assets measured at fair value

Gains or losses of assets measured at fair value will be recognised either through the consolidated statement of income or through the consolidated statement of OCI.

Initial measurement

Financial assets are initially measured at their fair value plus transaction costs. Transaction costs of financial assets carried at fair value through income statement are recognised in the consolidated statement of income, when incurred.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows meet the requirements as solely payment of principal and interest.

Subsequent measurement

Debt instruments

The Group recognises three classifications to subsequently measure its debt instruments:

- Amortised cost

Financial assets held for collection of contractual cash flows, where those cash flows represent Solely Payments of Principal and Interest ("SPPI"), are measured at amortised cost. A gain or loss on an investment in debt instruments subsequently measured at amortised cost, and not part of a hedging relationship, is recognised in the consolidated statement of income when the asset is de-recognised or impaired. Interest income from these financial assets is included in finance income using the Effective Interest Rate ("EIR") method.

- FVOCI

Financial assets held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses, which are recognised in the consolidated statement of income. When the financial asset is de-recognised, the cumulative gain or loss previously recognised in OCI, is reclassified from equity to the consolidated statement of income and recognised in other income/expense. Interest income from these financial assets is included in finance income using the EIR method. Foreign exchange gains and losses are presented in other income/expense.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

i) Financial assets (continued)

- FVPL

Financial assets at fair value through income statement include financial assets held for trading, financial assets designated upon initial recognition at fair value through income statement, or financial assets mandatorily required to be measured at fair value. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through income statement, irrespective of the business model.

Financial assets at fair value through income statement are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of income. This category includes derivative instruments.

Equity instruments

The Group measures all investments in equity instruments at fair value and presents changes in fair value of investments in equity instruments in OCI. Dividends from such investments continue to be recognised in the consolidated statement of income as other income when the Group's right to receive payments is established. There shall be no subsequent reclassification of changes in fair value through the consolidated statement of income.

<u>De-recognition</u>

A financial asset or a part of a financial asset is de-recognised 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.

<u>Impairment</u>

At each reporting date, the Group applies a three-stage approach to measuring expected credit losses ("ECL") on financial assets accounted for at amortized cost and FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

<u>a) Stage 1: 12-months ECL</u>
For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognized.

<u>b) Stage 2: Lifetime ECL - not credit impaired</u>
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognized.

<u>c) Stage 3: Lifetime ECL - credit impaired</u>
Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognized and interest revenue is calculated by applying the effective interest rate to the amortized cost (net of provision) rather than the gross carrying amount.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

i) Financial assets (continued)

For equity instruments measured at FVOCI, impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value and for debt instruments measured at FVOCI, impairment gains or losses are recognized in the consolidated statement of income and other comprehensive income.

For trade receivables only, the Group recognizes expected credit losses for trade receivables based on the simplified approach under IFRS 9. The simplified approach to the recognition of expected losses does not require the Group to track the changes in credit risk; rather, the Group recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Objective evidence that financial assets are impaired may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Group under the contract, and the cash flows that the Group expects to receive. The Group assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost.

The Group measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified under either of the below two classes:

- Financial liabilities at FVPL; and
- Other financial liabilities measured at amortised cost using the EIR method.

The category of financial liability at FVPL has two sub-categories:

- Designated: A financial liability that is designated by the entity as a liability at FVPL upon initial recognition; and
- Held for trading: A financial liability classified as held for trading, such as an obligation for securities borrowed in a short sale, which have to be returned in the future. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

All financial liabilities are recognised initially when the Group becomes party to contractual provisions and obligations under the financial instrument. The liabilities are recorded at fair value, and in the case of loans and borrowings and payables, the proceeds received net of directly attributable transaction costs.

Subsequent measurement

Financial liabilities at FVPL continue to be recorded at fair value with changes being recorded in the consolidated statement of income.

For other financial liabilities, including loans and borrowings, after initial recognition, these are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in consolidated statement of income when the liabilities are de-recognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR method. The EIR amortisation is included as finance costs in the consolidated statement of income.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

ii) Financial liabilities (continued)

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period which are unpaid. They are recognised initially at their fair value and subsequently measured at amortised cost using the EIR method.

Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value adjusted for transaction costs that are directly attributable to the issuance of the guarantee. The fair value of financial guarantee is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligation.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

De-recognition

A financial liability is de-recognised when the obligation under the liability is settled or discharged. 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 de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

The Group uses interest rate swaps to hedge its risks associated with interest rates. The hedges that do not meet the criteria for hedge accounting under IFRS 9 are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Changes in fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the consolidated statement of income as they arise. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualified for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transactions occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the consolidated statement of income.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents
Cash and cash equivalents in the consolidated statement of financial position comprise of cash at banks and on hand, cash in funds and short-term deposits with a maturity of three months or less, 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 at banks and on hand, cash in funds and short-term deposits, as defined above.

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.

If the effect of the time value of money is material, provisions are discounted using a current pre-zakat 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.

Tenant's deposits
Tenant deposits are initially recognised at fair value and subsequently measured at amortised cost where material. Any difference between the initial fair value and the nominal amount is included as a component of operating lease income and recognised on a straight-line basis over the lease term.

Employees' defined benefits obligations
The liability recognized in the consolidated statement of financial position in respect of the employees' defined benefits obligations, is the present value of the employees' defined benefits obligations at the end of the reporting period. The employees' defined benefits obligations is calculated annually by independent actuaries using the projected unit credit method.

Since the Kingdom of Saudi Arabia has no deep market in high-quality corporate bonds, the market rates of high-quality corporate bonds of the United States of America are used to present value the employees' end of service termination benefits obligation by discounting the estimated future cash outflows.

The net finance cost is calculated by applying the discount rate to the net balance of the employees' defined benefits obligations. This cost is included in employee benefit expense in the consolidated statement of income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in the consolidated statement of comprehensive income. They are included in retained earnings in the consolidated statement of changes in equity and in the consolidated statement of financial position.

Changes in the present value of the employees' end of service termination benefits obligation resulting from plan amendments or curtailments are recognized immediately in the consolidated statement of income as past service costs.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective

The following is an overview of accounting standard changes that the Group will be required to adopt in future years. The Group continues to assess the impact of these standards on the consolidated financial statements.

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. This standard is not applicable to the Group.

Amendments to IFRS 3: Definition of a Business
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material
In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, '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 to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

5. USE OF ESTIMATES AND JUDGMENTS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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 beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Use of estimates and assumption
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Following are the estimates and assumptions exposed to significant risks that could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities during the next fiscal year.

Allowance for expected credit losses
For accounts receivables, the Group applies the simplified approach. To measure the expected credit losses, receivables have been grouped based on shared credit risk characteristics and the days past due. Expected loss rates were derived from historical information of the Group and are adjusted to reflect the expected future outcome which also incorporates forward looking information for macroeconomic factors such as inflation and gross domestic product growth rate.

Useful lives of investment properties and equipment
The Group's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the useful lives annually, and the depreciation method to make sure that the depreciation method and period are consistent with the expected pattern of the assets' economic benefits.

Employees' end-of-service benefits
The cost of employees' defined benefit obligation and other post-employment benefits are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, and mortality rates. Due to the complexity of the valuation, the underlying assumptions 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.

Zakat
The Company and its subsidiaries are subject to zakat in accordance with the Regulations of General Authority of Zakat and Tax (the "GAZT") in the Kingdom of Saudi Arabia, and the provision is charged to the consolidated statement of income. Additional zakat liabilities, if any, resulting from the final assessments raised by (the "GAZT") for previous years are accounted for in the year in which these final assessment are issued.

Derivative financial instrument fair value measurement
When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

● Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities may be available at the measurement date.

● level 2 – inputs other than quoted prices included in level 1 that are observable for the assets or liabilities either directly (i.e. as prices) or indirectly (i.e. derived from prices).

● Level 3 - inputs for assets or liability that are not based on observable market data (unobservable input)

(In Saudi Riyals Thousands, unless otherwise indicated)

6. SEGMENT INFORMATION

For management purposes, the Group consists of business units based on its products and services and has two reportable segments, as follows:

A. Residential sector

B. Commercial sector

Segment performance is evaluated based on income or loss and is measured consistently with income or loss in the consolidated financial statements. However, the Group's financing (including finance costs) are managed on a Group basis and are not allocated to operating and revenue segments.

The activities of the Group and its subsidiaries are primarily conducted in the Kingdom of Saudi Arabia.

Below is a breakdown of the segment information:

	Residential	Commercial	Service	Head office	Total
As at 31 December 2019					
Revenue	**124,563**	**177,414**	**36,837**	-	**338,814**
Cost of revenue	**(53,079)**	**(89,089)**	**(25,497)**	-	**(167,665)**
Gross profit	**71,484**	**88,325**	**11,340**	-	**171,149**
General and administrative expenses	-	-	-	**(223,691)**	**(223,691)**
Selling and marketing expenses	-	-	-	**(45,837)**	**(45,837)**
Write-off of capital work-in- progress	-	-	-	**(63,135)**	**(63,135)**
Decline in value of investment properties	-	-	-	**(34,377)**	**(34,377)**
Impairment provision for prepayments and other receivables	-	-	-	**(10,865)**	**(10,865)**
Financial charges	-	-	-	**(44,825)**	**(44,825)**
Gain on revaluation of investments designated at FVPL	-	-	-	**12,171**	**12,171**
Gain on disposal of investments designated at FVPL	-	-	-	**23,019**	**23,019**
Share of profit of an associate	-	-	-	**17,446**	**17,446**
Dividends income	-	-	-	**9,148**	**9,148**
Other income	-	-	-	**4,628**	**4,628**
Segment profit (loss) before zakat	**71,484**	**88,325**	**11,340**	**(356,318)**	**(185,169)**
Total assets	**1,582,946**	**1,536,800**	-	**4,079,308**	**7,199,054**
Total liabilities	-	-	-	**4,232,765**	**4,232,765**

(In Saudi Riyals Thousands, unless otherwise indicated)

6. SEGMENT INFORMATION (continued)

	Residential	**Commercial**	**Head office**	**Total**
As at 31 December 2018				
Revenue	132,008	164,561	-	296,569
Cost of revenue	(49,572)	(61,797)	-	(111,369)
Gross profit	82,436	102,764	-	185,200
General and administrative expenses	-	-	(122,017)	(122,017)
Selling and marketing expenses	-	-	(24,147)	(24,147)
Impairment loss on Sukuk	-	-	(206,338)	(206,338)
Impairment provision for prepayments and other receivables	-	-	(20,000)	(20,000)
Financial charges	-	-	(49,193)	(49,193)
Loss on revaluation of investments designated at FVPL	-	-	(893)	(893)
Gain on disposal of investments designated at FVPL	-	-	22,980	22,980
Share of profit of an associate	-	-	19,743	19,743
Gain on revaluation of derivatives financial instruments	-	-	13,156	13,156
Dividends income	-	-	2,802	2,802
Other income	-	-	1,506	1,506
Income from short-term deposits and Sukuk	-	-	953	953
Segment profit (loss) before zakat	82,436	102,764	(361,448)	(176,248)
Total assets	677,432	472,003	6,192,000	7,341,435
Total liabilities	-	-	4,170,576	4,170,576

(In Saudi Riyals Thousands, unless otherwise indicated)

7. REVENUE

	For the year ended 2019	2018
Rental revenues (note 33)	**263,569**	294,897
Facility management	**36,044**	1,228
Others	**39,201**	444
	338,814	296,569

8. COST OF REVENUE

	For the year ended 2019	2018
Employees' salaries, wages and other related benefits	**64,172**	29,308
Depreciation	**47,190**	43,769
Maintenance expenses	**30,208**	28,540
Materials cost	**18,204**	-
Others	**7,891**	9,752
	167,665	111,369

9. GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 2019	2018
Employees' salaries, wages and other related benefits	**94,570**	66,085
Professional and consulting fees*	**45,068**	13,032
Management and restructuring fees for Alinma Alakaria Real Estate Fund	**28,114**	-
Provision for white land fee	**17,191**	4,519
Attendance allowance and committees remuneration (note 34)	**11,248**	10,400
Amortization of intangible assets	**6,598**	3,791
Short-term rental expenses	**4,244**	2,133
Depreciation	**3,740**	4,103
IT expenses	**2,734**	967
Utilities	**1,241**	3,307
Travel expenses	**1,207**	1,807
Others	**7,736**	11,873
	223,691	122,017

* This mainly include professional and consulting fees for Al Widyan project, which is relating to Al Widyan Saudi Real State Company.

10. SELLING AND MARKETING EXPENSES

	For the year ended 2019	2018
Promotions and advertisement	**23,974**	2,879
Expected credit losses (note 19)	**12,878**	15,226
Employees' salaries, wages and other related benefits	**7,577**	3,862
Others	**1,408**	2,180
	45,837	24,147

(In Saudi Riyals Thousands, unless otherwise indicated)

11. FINANCIAL CHARGES

	For the year ended	
	2019	2018
Bank loans	**38,932**	38,411
Finance cost on lease liabilities (note 30)	**4,466**	-
Derivatives	**1,427**	10,782
	44,825	49,193

During the year ended 31 December 2019, an amount of SR 145 million (2018: SR 96 million) was capitalised as cost of borrowing for the construction of the projects under constructions (note 15).

12. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments designated at FVPL was a portfolio of variable rate corporate loans which is economically hedged by derivatives, that was matured on 21 May 2019 with floating rate 3-month SAIBOR +1%. The fair value of the derivatives in SR Nil as at 31 December 2019 (31 December 2018: SR 2.3 million). The change in fair value of the derivatives is SR Nil (31 December 2018: gain of SR 13.1 million). Gain on settlement of derivative financial instruments on maturity date amounted to SR 553 and is classified under other income.

13. LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the loss for the year attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year.

The following table reflects the income and share data used in the basic and diluted loss per share computations:

	2019	2018
Loss attributable to ordinary equity holders of the parent company for basic and diluted loss	**(186,351)**	(183,069)
Weighted average number of ordinary shares (share)	**240,000**	240,000
Basic and diluted loss per share (SR)	**(0.78)**	(0.76)

(In Saudi Riyals Thousands, unless otherwise indicated)

14. PROPERTY AND EQUIPMENT

	Buildings	*Machinery & equipment*	*Furniture & decorations*	*Computer*	*Vehicles*	*Capital work-in-progress*	*Total*
Cost:							
At 1 January 2018	**9,469**	**83,246**	**12,524**	**7,788**	**8,326**	**93**	**121,446**
Additions	1,013	3,552	2,179	2,307	1,750	6,392	17,193
Transfers	-	6,045	-	-	-	(6,045)	-
Disposals	-	(3)	(182)	-	(2,113)	-	(2,298)
At 31 December 2018	**10,482**	**92,840**	**14,521**	**10,095**	**7,963**	**440**	**136,341**
Additions	8	6,158	2,143	2,151	1,713	-	12,173
Disposals	-	(2,896)	(924)	(130)	(970)	(440)	(5,360)
Reclassification	-	(1,677)	1,677	-	-	-	-
At 31 December 2019	**10,490**	**94,425**	**17,417**	**12,116**	**8,706**	-	**143,154**
Depreciation:							
At 1 January 2018	**6,843**	**32,522**	**8,734**	**4,413**	**5,346**	-	**57,858**
Charge for the year	434	13,098	1,895	1,365	1,229	-	18,021
Relating to disposals	-	(2)	-	(195)	(1,046)	-	(1,243)
At 31 December 2018	**7,277**	**45,618**	**10,629**	**5,583**	**5,529**	-	**74,636**
Charge for the year	505	13,750	2,004	1,913	1,374	-	19,546
Relating to disposals	-	(2,809)	(276)	(28)	(548)	-	(3,661)
At 31 December 2019	**7,782**	**56,559**	**12,357**	**7,468**	**6,355**	-	**90,521**
Net book value:							
At 31 December 2019	**2,708**	**37,866**	**5,060**	**4,648**	**2,351**	-	**52,633**
At 31 December 2018	3,205	47,222	3,892	4,512	2,434	440	61,705

(In Saudi Riyals Thousands, unless otherwise indicated)

15. INVESTMENTS PROPERTIES

	Lands	*Buildings*	*Fittings and decorations*	*Capital work-in-progress*	*Total*
Cost:					
At 1 January 2018	**3,424,167**	**1,448,762**	**479,620**	**529,318**	**5,881,867**
Additions	-	535	1,251	684,313	686,099
Transfers	-	55,398	44,221	(99,619)	-
Disposals	-	-	(2,221)	-	(2,221)
At 31 December 2018	**3,424,167**	**1,504,695**	**522,871**	**1,114,012**	**6,565,745**
Additions	-	-	568	385,339	385,907
Disposals and adjustments	-	-	(364)	(13,328)	(13,692)
Write-off of capital work-in- progress	-	-	-	(63,135)	**(63,135)**
Reclassification	-	(63,800)	63,800	-	-
At 31 December 2019	**3,424,167**	**1,440,895**	**586,875**	**1,422,888**	**6,874,825**
Depreciation and decline in value:					
At 1 January 2018	-	**490,538**	**278,492**	-	**769,030**
Charge for the year	-	27,823	13,284	-	41,107
Relating to disposals	-	-	(1,119)	-	(1,119)
At 31 December 2018	-	**518,361**	**290,657**	-	**809,018**
Charge for the year	-	28,852	15,940	-	44,792
Decline in value	20,400	-	-	13,977	34,377
Relating to disposals	-	-	(17)	-	(17)
Reclassification	-	(14,863)	14,863	-	-
At 31 December 2019	**20,400**	**532,350**	**321,443**	**13,977**	**888,170**
Net book value:					
At 31 December 2019	**3,403,767**	**908,545**	**265,432**	**1,408,911**	**5,986,655**
At 31 December 2018	3,424,167	986,334	232,214	1,114,012	5,756,727

As at 31 December 2019, an amount of SR 145 million (2018: 96 million) was capitalised as cost of borrowing for the construction of the projects under constructions (notes 11,27&28).

(In Saudi Riyals Thousands, unless otherwise indicated)

15. INVESTMENTS PROPERTIES (continued)

As set out in the significant accounting policies, the investment properties are stated at cost less accumulated depreciation. The fair value of properties amounted to SR 10.4 billion as at 31 December 2019 (31 December 2018: SR 10 billion) based on valuation performed by different valuers namely Century 21, Rawaj, Value Expert and ValuStrat (independent valuers accredited by Saudi Authority for Accredited Valuers), who are specialist in valuing these types of investments properties. Based on these valuations, decline in value of lands and capital work-in-progress amounting to SR 20,4 million and SR14 million respectively, was recorded during year ended 31 December 2019 (2018: nil).

During the year, the management reassessed the economic feasibility of projects in progress relating to residential, commercial and determined that there are certain projects including hospitality projects in Riyadh that are no longer economically viable. Also one of the projects was cancelled due to the issuance of orders stating to stop the development of some lands located north of Riyadh, with carrying value of SR 7.3 million. Accordingly, capital work-in-progress relating to these projects amounting to SR 63,135 were written off (2018: nil).

The lands include lands having carrying value of SR 2 billion (2018: SR 2 billion) pledged against an Islamic loan from a local bank (note 27).

Investment properties include buildings with net book value amounting SR 639 million Riyal constructed on a land leased from the High Commission for the Development of Arriyadh under two contracts for 99-years and 50-years beginning from 7 January 1993 and 6 July 2009, respectively, based on beneficial right, which will be transferred to the Authority at the end of the contract's period.

16. INVESTMENT IN AN ASSOCIATE

As of 31 December 2019 and 31 December 2018, the Group owns 16.67% interest in Riyadh Holding Company, a limited liability company registered in the Kingdom of Saudi Arabia. The Group's interest in the associate is accounted for using the equity method in these consolidated financial statements, as the Group has significant influence on the associate.

The following table illustrates the summarised financial information of the Group's investment in Riyadh Holding Company:

	2019	2018
At the beginning of the year	**235,657**	224,452
Share of profits	**17,446**	19,743
Dividends received	**(11,667)**	(11,669)
Share of other comprehensive income	**1,705**	3,131
At the end of the year	**243,141**	235,657

Summarised statement of financial position of Riyadh Holding Company:

	2019	2018
Current assets	**178,818**	134,545
Non-current assets	**1,417,670**	1,425,010
Current liabilities	**(86,973)**	(88,984)
Non-current liabilities	**(50,963)**	(56,912)
Equity	**1,458,552**	1,413,659
Group's share in equity – 16.67%	**243,141**	235,657
Group's carrying amount of the investment	**243,141**	235,657

(In Saudi Riyals Thousands, unless otherwise indicated)

16. INVESTMENT IN AN ASSOCIATE (continued)

Summarised statement of income of Riyadh Holding Company:

	2019	2018
Revenue	**167,767**	159,110
Cost of revenue	**(65,522)**	(56,567)
General and administrative expense	**(13,687)**	(14,672)
Other income	**19,131**	33,729
Profit before zakat	**107,689**	121,600
Zakat	**(3,036)**	(3,165)
Net profit for the year	**104,653**	118,435
Group's share of profit for the year	**17,446**	19,743
Other comprehensive income for the year	**10,226**	18,782
Group's share of other comprehensive income for the year	**1,705**	3,131

17. DEBT INSTRUMENTS AT AMORTISED COST

Debt instruments at amortised cost represents Sukuk of Al Bayan Holding Company amounting to SR 206.3 million (2018: SR 206.3 million). During 2018 the Group has recognized a provision for an impairment of the whole amount as the counter party defaulted on their obligations. During the year ended 31 December 2019, the Group has initiated legal proceedings to recover the amount.

18. INVESTMENTS IN EQUITY INSTRUMENTS

	2019	2018
Investments in equity instruments designated at FVOCI - unquoted equity shares (A)	**311,484**	355,812
Investments in equity instruments designated at FVOCI - quoted equity shares (B)	**73,238**	47,436
Total investments in equity instruments designated at FVOCI	**384,722**	403,248
Investments designated at FVPL - investment funds (C)	**57,109**	270,838
Total investments in equity instruments	**441,831**	674,086

A. Investment in equity instruments designated at FVOCI - unquoted equity shares:

	Ownership	**2019**	2018
Economic Knowledge City Developers	9.48%	**78,178**	102,343
Um Al Qura Company for Development and Reconstruction	1.81%	**94,106**	95,614
Dar Al Tamleek Company	9.34%	**49,364**	57,591
Kinan International Real Estate Development Company	2.11%	**44,205**	54,714
Al Aqeer Development Company	5%	**37,500**	37,500
United Arabian Flat Glass Company	4.69%	**7,331**	7,250
Real Estate Financing Company	3.2%	**800**	800
		311,484	355,812

(In Saudi Riyals Thousands, unless otherwise indicated)

18. INVESTMENTS IN EQUITY INSTRUMENTS (continued)

B. Investment in equity instruments designated at FVOCI - quoted equity shares:

	Ownership	**2019**	2018
Hail Cement Company	6.12%	**73,200**	47,400
Taiba Investment Company	0.001%	**38**	36
		73,238	47,436

The movement of investments in equity instruments designated at FVOCI was as follows:

	2019	2018
At the beginning of the year	**403,248**	467,500
Change in fair value of investments	**(4,756)**	(64,252)
Proceeds from reduction of share capital (Dar Al Tamleek)	**(13,770)**	-
At the end of the year	**384,722**	403,248

C. Investments designated at FVPL - investment funds:

	2019	2018
Jadwa Investment Fund	**57,109**	44,938
Derayah Fund	-	190,477
The Prism Income Fund	-	35,423
	57,109	270,838

The movement of investments designated at FVPL was as follows:

	2019	2018
At the beginning of the year	**270,838**	377,173
Additions	-	248,751
Changes in fair value of investments	**12,171**	(893)
Disposed during the year	**(225,900)**	(354,193)
At the end of the year	**57,109**	270,838

During the year, the Group sold investments designated at FVPL having carrying values of SR 225,900 (2018: SR 354,193) for SR 248,919 (2018: SR 377,173) and recorded a gain on disposals amounting to SR 23,019 (2018: gain of SR 22,980)

(In Saudi Riyals Thousands, unless otherwise indicated)

19. TRADE RECEIVABLES

	2019	2018
Trade receivables	**143,318**	122,216
Less: allowance for expected credit losses	**(46,331)**	(33,453)
Trade receivables, net	**96,987**	88,763

Movement in the allowance for expected credit losses is as follows:

	2019	2018
At the beginning of the year	**33,453**	18,227
Expected credit losses provision (note 10)	**12,878**	15,226
At the end of the year	**46,331**	33,453

As at 31 December, the analysis of receivables aging, and allowance for expected credit losses is set out below:

	Total	**1-90 days**	**91-180 days**	**181–270 days**	**271–365days**	**> 365 days**
Allowance for expected credit losses						
2019	**46,331**	**2,367**	**3,043**	**2,146**	**6,393**	**32,382**
2018	33,453	7,511	5,718	4,141	4,322	11,761
Trade receivables						
2019	**143,318**	**21,345**	**22,945**	**21,098**	**32,914**	**45,016**
2018	122,216	57,804	22,526	8,978	8,585	24,323

(In Saudi Riyals Thousands, unless otherwise indicated)

20. PREPAYMENTS AND OTHER RECEIVABLES

	2019	2018
Advance payment to purchase a land	**50,000**	50,000
Bank guarantees	**31,499**	12,750
Advanced payments to suppliers	**21,221**	42,986
VAT receivables	**17,595**	10,585
Accrued revenue	**3,517**	-
Prepaid expenses	**2,151**	5,395
Advances to employees	**1,115**	598
Amounts from related parties	**220**	4,716
Advance payment to establish Alinma Alakaria Real Estate Fund (note 1 (vi))	-	50,000
Others	**3,890**	16,999
	131,208	194,029
Less: impairment provision for prepayments and other receivables	**(32,262)**	(21,397)
	98,946	172,632

Movement in impairment provision for prepayments and other receivables is as follows:

At the beginning of the year	**21,397**	1,397
Charge for the year	**10,865**	20,000
At the end of the year	**32,262**	21,397

21. CASH AND CASH EQUIVALENTS

	2019	2018
Cash at banks and on hand	**184,480**	308,410
Short-term Islamic Murabaha deposits*	-	14,466
Cash in funds	-	8,848
	184,480	331,724

* Short-term deposits are made for varying periods of between one day and three months with interest rate from 1.7% - 1.9%, depending on the immediate cash requirements of the Group.

(In Saudi Riyals Thousands, unless otherwise indicated)

22. SHARE CAPITAL

The Company's share capital amounting to SR 2,400 million as at 31 December 2019 is divided into 240 million shares (31 December 2018: 240 million shares) of SR 10 each.

Based on the Company's Extraordinary General Assembly meeting held on 14 Shawwal 1439H (corresponding to 28 June 2018), the Company's capital has been increased from SR 1,200 million to SR 2,400 million by transferring SR 470 million from the "contractual reserve" account and SR 730 million from the "statutory reserve" account to the proposed increase in capital. During the year ended 31 December 2018, this proposed increase was transferred to capital account, as all the legal formalities were finalized and the Company's commercial register was amended accordingly.

23. STATUTORY RESERVE

In accordance with Saudi Arabian Regulations for Companies and the Company's by-law, the Company must transfer 10% of its net income in each year (after covering accumulated losses). Until this reserve is amounted to 30% of the capital. Since the reserve has reached the required amount the Company has decided to discontinue such transfer. This reserve is not available for distribution.

24. CONTRACTUAL RESERVE

In accordance with the Company's By-Laws, the Company shall transfer 10% from the net income for the year to the contractual reserve until this reserve equals 50% of the share capital. Since the Company is a loss making therefore no transfer is made to contractual reserve.

25. OTHER RESERVES

	2019	2018
Investments in equity instruments	**(5,245)**	(2,194)
Actuarial gains on employees' defined benefit obligations	**3,017**	6,052
	(2,228)	3,858

26. NON-CONTROLLING INTERESTS

	2019	2018
At the beginning of the year	**9,642**	23,849
Net loss for the year	**(11,695)**	(14,207)
Other comprehensive loss for the year	**(438)**	**-**
Net loss attributable to non-controlling interests	**(12,133)**	(14,207)
At the end of the year	**(2,491)**	9,642

(In Saudi Riyals Thousands, unless otherwise indicated)

27. LONG-TERM LOANS

	2019	2018
Current portion	**2,074,077**	2,130,797
Non-current portion	**645,411**	644,134
	2,719,488	2,774,931

During 2016 the Group obtained Islamic long-term loan from a local bank amounting to SR 2.12 billion. The loan is subject to prevailing interest rates between the Saudi banks (SAIBOR) plus a profit margin and is repayable one time at the end of the agreement period in May 2019. The Group paid SR 50 million during 2019 and the remainder loan amounting to SR 2.07 billion was classified as current liability. Currently, the management is studying the available options for the rescheduling the loan (note 38). The Group has pledged to deposit 50% at least of the Group's revenue in their accounts with the lending bank.

During 2018, the Group acquired another long-term Islamic loan from a local bank amounting to SR 650 million. The loan is subject to the prevailing interest rates between the Saudi banks (SAIBOR) plus a profit margin. The loan is repayable in annual instalments in five years after a grace period of two years. The first instalment begins on May 2021. The long-term loan granted to the Group is secured by the Group's collateralized land.

As at 31 December 2019, an amount of SR 109 million (2018: SR 67 million) was capitalised as cost of borrowing for the construction of the project under constructions (note 15).

28. LOAN FROM A RELATED PARTY

	2019	2018
Current portion	**1,012,647**	328,401
Non-current portion	-	680,249
	1,012,647	1,008,650

The Group signed a long-term loan agreement with the Public Investment Fund amounting to SR 1.5 billion during 2015 for the purpose of financing the construction of real estate projects. The total outstanding balance of the loan as at 31 December 2019 was SR 1,012 million and the loan will be repaid in equal semi-annual payments. The loan is subject to prevailing interest rates between the Saudi banks (SAIBOR) plus a profit margin. The first instalment was due on 1 January 2018 and the last instalment is due in July 2025.The Group has not paid instalments due amounting to SR 312 million. Currently, management is in negotiation with the Public Investment Fund to reschedule the loan.

The loan facility is subject to financial covenants regarding debt to equity ratio, liquidity ratio and debt coverage ratio for which the Group was not in compliance with as at 31 December 2019, In accordance with the disclosure requirements of IAS 1 *Presentation of Financial Statements*, an amount of SR 1.012 million (2018: SR Nil) has been classified as current liability.

Borrowing costs capitalised during the year ended 31 December 2019 amounted to SR 36 million (2018: SR 29 million). The Group management has fully utilized the loans proceeds for the Group's ongoing projects and 95% of the borrowing costs were eligible for capitalisation during the year ended 31 December 2019 (31 December 2018: 86%).

29. EMPLOYEES' DEFINED BENEFIT OBLIGATIONS

The Group grants end of service benefits to its employees taking into consideration the Saudi Arabian labour law. This benefit is an unfunded defined benefit plan ("DBO").

The benefits provided by this end of service plan is based primarily on years of service and employees' compensation. The funding of the plans is consistent with local requirements. The obligations are subject to demographic, legal and economic risks. Economic risks are primarily due to unforeseen developments in goods and capital markets and changes to the discount rate used to calculate the DBO.

(In Saudi Riyals Thousands, unless otherwise indicated)

29. EMPLOYEES' DEFINED BENEFIT OBLIGATIONS (Continued)

Principal actuarial assumptions:

	Value per annum (%)	
	2019	2018
Financial assumptions:		
- Net discount rate	3.20	3.25
- Salary growth rate	4.60	4.80
Demographic assumptions:		
- Retirement age	**60 years**	58 years and 3 months
- Mortality rates	WHO GHO Saudi Arabia life table	WHO GHO Saudi Arabia life table

Movement in present value of defined benefit obligation

	2019	2018
Opening balance - present value of defined benefit obligation	**18,426**	28,823
Current service cost	**7,724**	4,109
Interest cost	**560**	730
Benefits paid	**(7,554)**	(10,197)
Actuarial loss (gain) on obligation	**3,473**	(5,039)
Closing balance - present value of defined benefit obligation	**22,629**	18,426

30. RIGHT OF USE ASSETS AND LEASES

The Group has lease contracts for various land used in its operations with lease terms of 50-99 years.

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

	2019	2018
Recognised on adoption of IFRS 16 (note 4)	**75,908**	-
Amortisation for the year	**(1,379)**	-
At the end of the year	**74,529**	-

(In Saudi Riyals Thousands, unless otherwise indicated)

30. RIGHT OF USE ASSETS AND LEASES (continued)

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

	2019	2018
Recognised on adoption of IFRS 16 (note 4)	**75,908**	-
Paid during the year	**(4,540)**	-
Accretion interest	**4,466**	-
At the end of the year (non-current)	**75,834**	-

The following are the amounts recognised in profit or loss:

	2019	2018
Amortisation expense of right-of-use assets	**1,379**	-
Interest expense on lease liabilities	**4,466**	-
	5,845	-

31. TRADE PAYABLES

	2019	2018
Payable to suppliers and contractors	**81,768**	79,400
Retentions payable to contractors	**6,278**	7,233
Other payables	**3,022**	-
	91,068	86,633

32. ACCRUALS AND OTHER LIABILITIES

	2019	2018
Refundable deposits	**34,225**	32,457
Advance from customers	**26,099**	6,718
Management and restricting fees for Alinma Alakaria Real Estate Fund	**24,268**	-
Provision for white idle lands chargers	**21,654**	4,519
Accrued expenses	**16,927**	11,250
Penalties on past due instalments – long-term loan (PIF)	**17,643**	6,457
Employees payable	**11,041**	2,904
Dividends payable	**7,647**	7,640
Amounts due to related parties	**5,916**	11,877
Derivative financial instruments accrued expenses	-	5,922
Others	**4,305**	11,685
	169,725	101,429

(In Saudi Riyals Thousands, unless otherwise indicated)

33. UNEARNED REVENUE

	2019	2018
Opening balance	**139,897**	154,470
Rents received during the year	**227,209**	280,324
Recognised during the year (note 7)	**(263,569)**	(294,897)
	103,537	139,897

34. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders of the Company and entities controlled or significantly influenced by such parties. Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Group and its employees. The Group considers the members of the Board of Directors (and its sub-committees) and Executive Committee to be key management personnel for the purposes of IAS 24 Related Party Disclosures.

Following table shows the significant related party transactions during the year:

	2019	**2018**
Executive salaries and allowances*	**16,937**	11,535
Attendance allowance and committees remuneration (note 9)	**11,248**	10,400
	28,185	21,935

* The amounts disclosed in the table above represent the amounts recognized as an expense relating to senior management personnel during the financial period.

Revenues relating to transactions with government entities for the year ended 31 December 2019 amounted to SR 52,5 million (31 December 2018: SAR 53 million).

Transactions with related parties include a loan granted by the Public Investment Fund. The balance of the loan as at 31 December 2019 amounted to SR 1,013 million (31 December 2018: SR 992 million) (note 28).

35. ZAKAT

The significant components of the Zakat base are comprised of the following:

	2019	**2018**
Adjusted net income	290,546	92,750
Shareholders Equity, at the beginning of the year	3,163,200	3,407,836
Credit balances, provision and loans	4,070,132	3,829,295
Assets	(7,277,715)	(6,738,222)
	246,163	591,659
Zakat base	**290,546**	591,659

The movement in provision for Zakat for the year ended December 31 is as follows:

	2019	2018
At the begging of the year	**40,610**	24,537
Charge for the year	**12,877**	21,028
Paid during the year	**(15,650)**	(4,955)
At the end of the year	**37,837**	40,610

The Group submitted its Zakat assessments for all years up to 2018 and paid the obligations accordingly. Zakat returns assessments from the GAZT was approved for all years until 2004 .

36. COMMITMENTS AND CONTINGENCIES

Capital commitments

The Group is engaged in the execution of several development projects. The value of commitments not executed as at 31 December 2019 amounted to SR 155 million (31 December 2018: SR 554 million).

White idle lands claims

During the year ended December 31, 2019, white idle land fees that were received by the Group from the Ministry of Housing amounted to SR 134.2 million.

The Group has appealed against the above amounts on the website of the Ministry of Housing, which were rejected by the Ministry of Housing. Accordingly, the Group filed a lawsuit with the Board of Grievances against the non-eligibility of these claims, as the conditions for levying the white land on these lands did not apply.

As at 31 December 2019 status of these appeals are as follows:

- Administrative court’s final ruling in favor of the Group, cancelling fees amounting to SR 70 million;
- Administrative court’s final ruling in favour Ministry of Housing amounting to SR 21.6 million and accordingly, a provision was recorded by the Group;
- Administrative court’s preliminary ruling in favor of the Group cancelling fees amounting to SR 7.1 million. The Ministry of Housing objected to these rulings. The cases are still pending in the Court; and
- cases amounting to SR 35.5 that are still pending with Administrative court for preliminary ruling.

Based on the opinion of the legal counsel appointed by the Group's management, it is highly certain that all legal cases pending with the Administrative court, will be in the favor of the Group. Accordingly, management does not consider the need to make any further provisions for such claims or related charges

• *Legal issues*

In 2015, the Company entered into a multilateral agreement with two investment firms and Saudi Limitless Real Estate Development Company to establish a real estate fund. Under the agreement the Company was required to contribute cash amounting to SR 50 million and Limitless Real Estate Development Company to contribute certain land worth of SR 1.77 billion to the proposed fund. The Company fulfilled its obligations by paying its cash contribution of SR 50 million under the agreement. However, the proposed fund could not be launched in accordance with agreement. During the current year, a lawsuit was filed by Saudi Limitless for Real Estate Development Company against the Company and the other parties for the value of the land to enforce the agreement. The case is pending before the court and the Company has been advised by its legal counsel that based on the currently available information and court proceedings till date, it appears that the case will be in the Company’s favour. Accordingly, no further provision has been made for this matter

There are also some cases filed against the Group during the normal course of business and are currently being discussed. These cases have no material impact on the consolidated financial statements.

A lawsuit against Riyadh Holding Company - an associate - was filed by a contractor for SR 109 million. A preliminary ruling was issued to pay the amount and the ruling was appealed to the Court of Appeal.

(In Saudi Riyals Thousands, unless otherwise indicated)

37. FAIR VALUE MEASUREMENT
Following table provides the fair value measurement hierarchy of the Group's financial assets and financial liabilities as at 31 December 2019 and 31 December 2018:

	Carrying Amount	(level 1)	(level 2)	(level 3)	Fair value
As at 31 December 2019:					
Financial assets measured at fair value:					
Investments in equity instruments designated at FVOCI	**384,722**	**73,238**	**78,178**	**233,306**	**384,722**
Investments designated at FVPL	**57,109**	**-**	**57,109**	**-**	**57,109**
	441,831	**73,238**	**135,287**	**233,306**	**441,831**
As at 31 December 2018:					
Financial assets measured at fair value:					
Investments in equity instruments designated at FVOCI	403,248	47,436	102,343	253,469	403,248
Investments designated at FVPL	270,838	-	270,838	-	270,838
Derivatives financial instruments	2,369	-	2,369	-	2,369
	676,455	47,436	375,550	253,469	676,455

The derivative financial instrument is carried at fair value using valuation techniques, which employ the use of market observable inputs.

The management assessed that the fair values of cash and cash equivalents, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Management assessed that the carrying value of fixed and variable rate term loans approximates their fair values due to the fact that they bear interest rates that reflect current market interest rates for similar financing and loans. As a result, the values of the future discounted cash flows on those financing and loans are not significantly different from their current carrying value.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
The Group's principal financial liabilities, other than derivatives, of loans, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include trade and other receivables and cash and cash equivalents that derive directly from its operations. The Group also holds investment in equity instruments designated at FVOCI and investments designated at FVPL and enters into derivative transactions.

The Group has exposure to the following risks arising from financial instruments:

- Market risk
- Profit rate risk
- Foreign currency risk
- Equity price risk
- Credit risk
- Liquidity risk

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Group's overall risk management program focuses on robust liquidity management as well as monitoring of various relevant market variables, thereby constantly seeking to minimize potential adverse effects on the Group's financial performance. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below:

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: interest 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, deposits, AFS financial assets and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at 31 December in 2019 and 2018.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2019. The analyses exclude the impact of movements in market variables on: the carrying values of pension and other post-retirement obligations; provisions; and the non-financial assets and liabilities of foreign operations.

The following assumptions have been made in calculating the sensitivity analyses:

- The sensitivity of the relevant consolidated statement of income item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2019 and 2018 including the effect of hedge accounting.
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges at 31 December 2019 for the effects of the assumed changes of the underlying risk.

Profit rate risk
Profit rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market profit rates.

The Group's exposure to the risk of changes in market profit rates relates primarily to the loans. The loans bearing variable profit rate expose the Group to fluctuation in cash flows due to changes in interest rate. The Group enters into profit rate swaps to hedge its risks. These swaps are classified as derivative financial liabilities in the consolidated statement of financial position. The potential increased (decreased) at 20 pbs in profit rate at reporting date, with all other variable held constant will increase the Group's loss by amount of SR 7.5 million.

Foreign currency risk
Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's functional and reporting currency is the Saudi Riyal. The Group's transactions are principally in Saudi Riyals, US Dollars. Management monitor the fluctuations in currency exchange rates and believes that the currency risk is not significant. The bulk of the exposure is in USD and the Saudi Riyal is pegged at SAR 3.75: USD 1 therefore, the Group is not exposed to any risk from USD denominated financial instruments.

Equity price risk
The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

(In Saudi Riyals Thousands, unless otherwise indicated)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

To reduce exposure to credit risk, the Group has an approval process whereby credit limits are applied to its customers. The management also continuously monitors the credit exposure towards the customers and makes provision against expected credit losses which is based on customer profile and payments history. Outstanding customer receivables are regularly monitored.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2019	2018
Investments in equity instruments designated at FVOCI	**384,722**	403,248
Investments designated at FVPL	**57,109**	270,838
Investment in an associate	**243,141**	235,657
Trade receivables	**96,987**	88,763
Prepayments and other receivables	**98,946**	172,632
	880,905	1,171,138

Financial instruments and cash deposits
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.

Liquidity risk
Liquidity risk is the risk that Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an 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 through committed credit facilities to meet any future commitments.

The Group's approach to managing liquidity is to ensure, as far as possible that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. For this purpose, the Group has maintained credit lines with commercial banks in order to meet its liquidity requirements. As at 31 December 2019, the Group has unused bank financing facilities amounting to SR 500 million to manage the short-term and the long-term liquidity requirements

As at 31 December 2019, the consolidated statement of financial position shows an excess of current liabilities over current assets of SR 3,102 million , due to the reclassification of a long-term loans of SR 3.085 billion to current liabilities which was required to be fully repaid to a local bank during May 2019 (note 29) and due to non-compliance of the PIF's loan covenants.
The Group's management is currently studying the options available to arrange the repayment of the loans or rescheduling the instalments for later periods.

(In Saudi Riyals Thousands, unless otherwise indicated)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Management is confident that the Group will be able to settle all its obligations on a timely basis and the liquidity would be managed through following:

- Rescheduling the existing bank loan which is due as of 31 December 2019 and PIF loan, for which negotiations are currently underway and the lenders have conveyed their willingness to the management;
- Rolling over of specific instalments that are due in 2020. The Group has plans to roll over SR 125 million in 2020;
- Using the unutilized facilities that amounts to SR 500 million as of 31 December 2019, which the Group has eligibility to withdraw.

The table below shows the remaining contractual maturity dates of the Group's financial liabilities and agreed upon repayment terms. This table has been prepared based on the undiscounted cash flows of the Group's financial liabilities and as per the nearest date on which the Group is required to repay.

	Book value	Year	More than 1 to 5 years	More than 5 years
31 December 2019				
Trade payables (note 31)	**91,068**	**91,068**	-	-
Loans (note 27& 28)	**3,732,135**	**3,086,724**	**645,411**	-
Dividends payable (note 32)	**7,647**	-	**7,647**	-
	3,830,850	**3,177,792**	**653,058**	-
31 December 2018				
Trade payables (note 31)	86,633	86,633	-	-
Loans (note 27& 28)	3,783,581	2,459,198	625,000	699,383
Dividends payable (note 32)	7,640	7,640	-	-
	3,877,854	2,553,471	625,000	699,383

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 Saudi Riyals Thousands, unless otherwise indicated)

39. CAPITAL MANAGEMENT

For the purpose of the Group's capital management, capital includes issued shares and all other equity reserves attributable to the equity holders of the parent. 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 dividends payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt.

	2019	2018
Long-term loans	**3,732,135**	3,783,581
Trade payables	**91,068**	86,633
Accruals and other liabilities	**169,725**	101,429
Unearned revenue	**103,537**	139,897
Less: cash and cash equivalents	**(184,480)**	(331,724)
Net debt	**3,911,985**	3,779,816
Equity	**2,966,289**	3,170,859
Capital and net debt	**6,878,274**	6,950,675
Gearing ratio	**57%**	54%

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings.

40. DIVIDENDS

The ordinary general meeting of the shareholders of the Company held on 17 June 2019 approved the recommendation of Board of Directors not to distribute dividends to shareholders for the year ended 31 December 2019 (2018: cash dividend of 0.5 per share totalling SR 60 million for second half of 2017)

41. SUBSEQUENT EVENT

The outbreak of Novel Coronavirus (COVID 19) continues to progress and evolve. Therefore, it is challenging now, to predict the full extent and duration of its business and economic impact.

The extent and duration of such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the transmission rate of the coronavirus and the extent and effectiveness of containment actions taken. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these consolidated financial statements. These developments may impact the Group's future financial position, cash flows and financial condition.

42. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised to issue by the Board of Directors on 7 Shaba'an 1441H (corresponding to 31 March 2020).