

**KNOWLEDGE ECONOMIC CITY COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**UNAUDITED CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REVIEW REPORT FOR
THE THREE-MONTH AND NINE-MONTH PERIODS
ENDED 30 SEPTEMBER 2021**

**KNOWLEDGE ECONOMIC CITY COMPANY
(A SAUDI JOINT STOCK COMPANY)
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2021**

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Report on review of Condensed Consolidated Interim Financial Statements

To the shareholders of Knowledge Economic City Company (A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Knowledge Economic City Company (the “Company”) and its subsidiaries (together the “Group”) as of September 30, 2021 and the related condensed consolidated interim statement of comprehensive income for the three-month and nine-month periods then ended, and the condensed consolidated interim statements of changes in equity and cash flows for the nine-month period then ended and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial statements in accordance with International Accounting Standard 34 - “Interim Financial Reporting” (IAS 34), as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of interim financial information performed by the independent auditor of the entity”, as endorsed in the Kingdom of Saudi Arabia. A review of interim financial statements consist of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, as endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34, as endorsed in the Kingdom of Saudi Arabia.

PricewaterhouseCoopers

Ali A. Alotaibi
License Number 379

November 4, 2021



Knowledge Economic City Company
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Financial Position
(Amounts in Saudi Riyals unless otherwise stated)

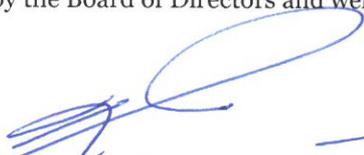
		30 September 2021 (Unaudited)	31 December 2020 (Audited)
Assets			
Non-current assets			
Property and equipment		49,080,217	49,798,155
Right-of-use asset		2,608,672	3,511,674
Investment properties	4	2,561,604,233	2,565,716,142
Intangible asset		568,863	907,981
Contract assets	6	100,337,353	116,704,883
Investment carried at amortised cost		124,232,958	124,772,392
Total non-current assets		2,838,432,296	2,861,411,227
Current assets			
Development properties	5	64,971,866	85,808,790
Trade receivables		17,664,903	18,077,782
Contract assets	6	53,582,938	49,971,078
Prepayments and other current assets		35,423,580	21,657,990
Short-term investments		-	46,088,167
Cash and cash equivalents		283,184,726	180,043,033
Total current assets		454,828,013	401,646,840
Total assets		3,293,260,309	3,263,058,067
Equity and liabilities			
Equity			
Share capital		3,393,000,000	3,393,000,000
Accumulated losses		(297,142,830)	(294,654,961)
Equity attributable to equity holders of the parent		3,095,857,170	3,098,345,039
Non-controlling interests		93,296,492	93,333,504
Net equity		3,189,153,662	3,191,678,543
Liabilities			
Non-current liabilities			
Payable to other unitholders of Fund		55,000,000	-
Employee termination benefits		8,602,508	7,406,722
Lease liabilities		1,964,197	1,925,521
Total non-current liabilities		65,566,705	9,332,243
Current liabilities			
Trade payables		4,275,421	2,095,636
Lease liabilities		648,829	1,861,179
Accruals and other current liabilities		24,280,095	46,162,974
Zakat payable	8	9,335,597	11,927,492
Total current liabilities		38,539,942	62,047,281
Total liabilities		104,106,647	71,379,524
Total liabilities and equity		3,293,260,309	3,263,058,067

The attached note from 1 to 14 from an integral part of these condensed consolidated interim financial statements.

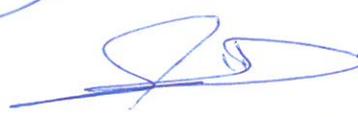
These condensed consolidated interim financial statements including the accompanying notes were approved and authorized for issue by the Board of Directors and were signed on their behalf by:



Chief Financial Officer



Chief Executive Officer



Chairman of Board of Directors

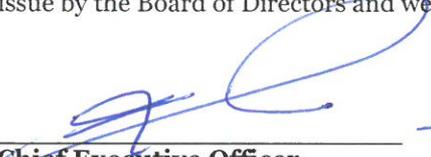
Knowledge Economic City Company
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive
Income (Unaudited)
(Amounts in Saudi Riyals unless otherwise stated)

	Note	Three-month period ended 30 September		Nine-month period ended 30 September	
		2021	2020	2021	2020
Continuing operations					
Revenue		1,495,378	9,895,123	33,511,939	92,355,182
Cost of revenue		(1,418,524)	(8,776,523)	(24,836,903)	(74,266,162)
Gross profit		76,854	1,118,600	8,675,036	18,089,020
Selling and marketing expenses		(2,452,498)	(1,984,398)	(6,956,636)	(6,955,346)
General and administrative expenses		(9,869,423)	(8,762,891)	(26,421,125)	(23,579,120)
Other income (expense), net	9	12,390,105	708,525	29,413,114	652,005
Operating profit/(loss)		145,038	(8,920,164)	4,710,389	(11,793,441)
Finance income		589,295	688,922	1,853,413	4,920,070
Finance cost		(28,010)	(57,290)	(111,264)	(163,465)
Profit/(loss) before zakat from continuing operations		706,323	(8,288,532)	6,452,538	(7,036,836)
Zakat expense	8	(3,000,000)	(6,689,820)	(9,086,421)	(13,205,936)
Net loss for the period from continuing operations		(2,293,677)	(14,978,352)	(2,633,883)	(20,242,772)
Discontinued operations					
Loss after tax for the period from discontinued operations		-	(169,805)	-	(2,001,272)
Net loss for the period		(2,293,677)	(15,148,157)	(2,633,883)	(22,244,044)
Other comprehensive income		-	-	-	-
Total comprehensive loss for the period		(2,293,677)	(15,148,157)	(2,633,883)	(22,244,044)
<i>Net loss attributable to:</i>					
Equity holders of the parent		(2,503,380)	(15,137,623)	(2,575,071)	(22,213,609)
Non-controlling interests		209,703	(10,534)	(58,812)	(30,435)
		(2,293,677)	(15,148,157)	(2,633,883)	(22,244,044)
<i>Total comprehensive loss attributable to:</i>					
Equity holders of the parent		(2,503,380)	(15,137,623)	(2,575,071)	(22,213,609)
Non-controlling interests		209,703	(10,534)	(58,812)	(30,435)
		(2,293,677)	(15,148,157)	(2,633,883)	(22,244,044)
Losses per share attributable to equity holders of the Company:					
Basic and diluted losses in Saudi Riyals per share	10	(0.007)	(0.045)	(0.008)	(0.065)
Losses per share from continuing operations attributable to equity holders of the Company:					
Basic and diluted losses in Saudi Riyals per share	10	(0.007)	(0.044)	(0.008)	(0.060)

The attached note from 1 to 14 from an integral part of these condensed consolidated interim financial statements.

These condensed consolidated interim financial statements including the accompanying notes were approved and authorized for issue by the Board of Directors and were signed on their behalf by:


Chief Financial Officer


Chief Executive Officer


Chairman of Board of Director

Knowledge Economic City Company
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Changes in Equity
(Amounts in Saudi Riyals unless otherwise stated)

	Attributable to the equity holders of the parent			
	Share capital	Accumulated losses	Total	Non-controlling interest
Balance as at 1 January 2020 (Audited)	3,393,000,000	(269,722,506)	3,123,277,494	93,448,191
Net loss for the period	-	(22,213,609)	(22,213,609)	(30,435)
Other comprehensive income for the period	-	-	-	-
Total comprehensive loss for the period	-	(22,213,609)	(22,213,609)	(30,435)
Discontinued operation	-	1,180,115	1,180,115	-
Balance as at 30 September 2020 (Unaudited)	3,393,000,000	(290,756,000)	3,102,244,000	93,417,756
Balance as at 1 January 2021 (Audited)	3,393,000,000	(294,654,961)	3,098,345,039	93,333,504
Net loss for the period	-	(2,575,071)	(2,575,071)	(58,812)
Other comprehensive income for the period	-	-	-	-
Total comprehensive loss for the period	-	(2,575,071)	(2,575,071)	(58,812)
Disposal of a subsidiary	-	87,202	87,202	21,800
Balance as at 30 September 2021 (Unaudited)	3,393,000,000	(297,142,830)	3,095,857,170	93,296,492
				3,189,153,662

The attached note from 1 to 14 from an integral part of these condensed consolidated interim financial statements.

These condensed consolidated interim financial statements including the accompanying notes were approved and authorized for issue by the Board of Directors and were signed on their behalf by:



Chief Financial Officer



Chairman of Board of Directors

Knowledge Economic City Company
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Cash Flows
(Amounts in Saudi Riyals unless otherwise stated)

	Nine-month period ended	
	30 September	
	2021	2020
Operating activities		
Profit/(loss) before zakat from continuing operations	6,452,538	(7,036,836)
Loss before zakat from discontinued operations	-	(2,001,272)
	6,452,538	(9,038,108)
<i>Adjustments to reconcile profit before zakat to net cash flows:</i>		
Finance income	(1,853,413)	(4,920,070)
Provision for employee termination benefits	1,256,078	874,663
Finance cost for lease liabilities	111,264	163,465
Depreciation of property and equipment	1,081,546	1,663,940
Depreciation of right-of-use assets	903,002	903,001
Amortization of intangible assets	358,806	311,701
	8,309,821	(10,041,408)
<i>Working capital adjustments:</i>		
Development properties	20,836,924	53,624,848
Trade receivables	412,879	(1,773,365)
Contract assets	12,755,670	(35,137,910)
Prepayments and other current assets	(13,765,590)	(14,847,354)
Trade payable	2,179,785	(501,132)
Deferred gain	-	267,276
Contract liabilities	-	(504,300)
Accruals and other current and non-current liabilities	(21,882,879)	(6,101,142)
Cash generated from/ (used in) operations	8,846,610	(15,014,487)
Employees' termination benefits paid	(60,292)	(265,301)
Zakat paid	(11,678,316)	(14,940,516)
Net cash used in operating activities	(2,891,998)	(30,220,304)
Investing activities		
Short-term investments made	-	(181,000,000)
Proceeds from liquidation of short-term investments	46,000,000	446,000,000
Finance income received	2,481,014	5,909,959
Additions to investment properties	(22,662,057)	(61,251,510)
Adjustments to investment properties on settlement of claim	26,773,966	-
Additions to property and equipment	(363,608)	(242,176)
Additions to intangible asset	(19,688)	(376,495)
Net cash flows generated from investing activities	52,209,627	209,039,778
Financing activities		
Contribution by other unitholders of the Fund	55,000,000	-
Disposal of subsidiary	109,002	-
Lease payment	(1,284,938)	(673,063)
Net cash flows generated from/ (used in) financing activities	53,824,064	(673,063)
Net increase in cash and cash equivalents	103,141,693	178,146,411
Cash and cash equivalents at the beginning of the period	180,043,033	196,864,217
Less: cash and cash equivalents from discontinued operations	-	(1,318,934)
Cash and cash equivalents at the end of the period	283,184,726	373,691,694
SUPPLEMENTARY NON-CASH INFORMATION		
Accumulated losses derecognised upon disposal of discontinued operation	-	1,180,115

The attached note from 1 to 14 from an integral part of these condensed consolidated interim financial statement

These condensed consolidated interim financial statements including the attached notes were approved and authorized for issue by the Board of Directors and were signed on their behalf by:



Chief Financial Officer



Chief Executive Officer



Chairman of Board of Director

Knowledge Economic City Company
(A Saudi Joint Stock Company)
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month and nine-month period ended 30 September 2021
(Amounts in Saudi Riyals unless otherwise stated)

1 Corporate information

Knowledge Economic City Company (“KEC” or the “Company”) and its subsidiaries (collectively the “Group”) consist of the Company and its various Saudi Arabian subsidiaries. The Group is engaged in developing real estate, economic cities and other development projects including infrastructure, telecommunication networks, electricity plants, water treatment plant and other works related to developing economic cities in the Kingdom of Saudi Arabia. The Company owns land parcels in Madinah Al-Munawarah and is the lead developer for transforming such land parcels into an economic city.

The Company is a Saudi joint stock company incorporated in the Kingdom of Saudi Arabia as per Ministry of Commerce resolution number 256/Q dated 15 Sha’ban 1431H (corresponding to 27 July 2010) and registered under commercial registration number 4650071196 issued in Madinah Al Munawarah dated 23 Sha’ban 1431H (corresponding to 4 August 2010). The Company’s shares are listed on the Saudi Stock Exchange Tadawul.

The registered address of the Company is Diwan Al Marefah, King Abdulaziz Road, P. O. Box 43033, Madinah Al Munawarah 41561, Kingdom of Saudi Arabia.

The Company had a branch under the name of Madinah Institute for Leadership and Entrepreneurship (“MILE”) which conducts programs for executive education and training and is based in Madinah Al Munawarah under the license number 4650053318 dated 21 Shawwal 1432H (corresponding to 19 September 2011) issued by Technical and Vocational Training Corporation Saudi Arabia. During the period ended September 2020 the Board of Directors of the Group resolved to convert MILE to a non-profit charitable endowment and independent entity. All the legal formalities of such conversion have been completed by 19 July 2020, and accordingly the operations of the Branch were classified as a disposal group discontinued operation as of 30 September 2020.

These condensed consolidated interim financial statements include the accounts of the Company, its branch and its following subsidiaries operating under individual commercial registrations.

<i>Subsidiaries</i>	Country of incorporation	Paid up capital	Effective ownership	
			30 September 2021	31 December 2020
Mounshaat Al Maarifa Al Akaria Company Limited (“Mounshaat”)	Saudi Arabia	1,000,000	100%	100%
Mashariaa Al Maarifa Al Akaria Company Limited (“Mashariaa”)	Saudi Arabia	633,000,000	100%	100%
Al Garra International Company for Real Estate (“Al Garra”)	Saudi Arabia	467,765,000	80%	80%
Al Maarifa Al Akaria Company Limited (“Amaak”)	Saudi Arabia	50,000,000	100%	100%
Makarem Al Maarifa for Hospitality Company Limited (“Makarem”) (refer Note below)	Saudi Arabia	56,400,000	100%	100%
Bawabat Al-Madinah Real Estate Company (“Madinah Gate Co.”)	Saudi Arabia	20,000	-	80%
Riyadh Real Estate Development Fund - Madinah Gate	Saudi Arabia	220,000,000	68.82%	-

On 24 June 2020, the Company set up a subsidiary, namely; Madinah Gate (the subsidiary company). The land and related infrastructure cost were transferred from Al Garra during year 2020.

During the three-month period ended 30 June 2021, the Group invested in a newly established private real estate fund namely Riyadh Real Estate Development Fund - Madinah Gate (the “Fund”). The Group transferred the entire ownership of Madinah Gate Co. that owned the real estate asset in favor of the Fund amounting to Saudi Riyals 68 million in exchange of units in the Fund. Moreover, the Group also invested Saudi Riyals 97 million in cash to subscribe units in the Fund. This total investment of SR 165 million represents 75% ownership of the Fund (44.1% is direct ownership, and 30.9% indirect ownership through the subsidiary Al Garra company as the Group owns 80% of it). The Group signed an agreement with Riyadh Capital for the management of the Fund. Please see Note 3.

Knowledge Economic City Company
(A Saudi Joint Stock Company)
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month and nine-month period ended 30 September 2021
(Amounts in Saudi Riyals unless otherwise stated)

1 Corporate information (continued)

Mounshaat and Mashariaa have not commenced their operations as at 30 September 2021.

The Group signed an agreement with the Saudi Tourism Development Fund and Riyadh Bank to provide financing facility to an extent of SAR 782 million for development execution of the KEC Hub project. According to the agreement, the Saudi Tourism Development Fund and Riyadh Bank will provide financing to the Group for the cost of developing the first phase of the KEC Hub project. The Group provided collateral in the form of plots of land from the Group's land portfolio. As of 30 September 2021, the Group has not availed aforementioned facility.

Furthermore, the Group signed an agreement with MOBCO Group to develop an international school on a parcel of land that will be allocated for this investment through a long-term lease contract. The land lease agreement has not been signed yet.

These condensed consolidated interim financial statements were authorized for issue by the Group's Board of Directors on November 3, 2021.

2. Basis of preparation

2.1 Statement of compliance

The condensed consolidated interim financial statements for the nine-month period ended 30 September 2021 have been prepared in accordance with International Accounting Standard 34 - "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia ("KSA") as well as other standards and pronouncements that are endorsed by Saudi Organisation for Certified Public Accountants ("SOCPA").

These condensed consolidated interim financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2020.

2.2 Basis of consolidation

The condensed consolidated interim financial statements comprise the financial statements of the Company and its subsidiaries as at 30 September 2021 as mentioned in Note 1. Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to risks, 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.

2.3 Basis of measurement

These condensed consolidated interim financial statements are prepared under the historical cost convention, except for employee and other post-employment benefits, where actuarial present value calculations are used.

The Capital Market Authority ("CMA") announced on 30 December 2019 that obligates the listed entities to continue to use the cost model to measure property (IAS 16) and investment properties (IAS 40) in the financial statements prepared for financial periods within fiscal years, which starts before the year of 2022. CMA also obligates listed entities to continue to use the cost model to measure property and equipment and intangible assets for five years starting from 1 January 2020. The Group has complied with the requirements in the accompanying condensed consolidated interim financial statements.

2.4 Functional and presentation currency

These condensed consolidated interim financial statements are presented in Saudi Arabian Riyals (SAR), which is the Group's functional and presentation currency.

2.5 Accounting policies

The accounting policies and methods of computation adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020 except for the policies mentioned in the notes below. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

2 Basis of preparation (continued)

2.6 New and amended standards adopted by the Group

Several amendments apply for the first time for the period beginning January 1, 2021, but these amendments had no impact on the condensed consolidated interim financial statements of the Group.

2.7 Standards and interpretations issued but not yet effective and not applied by the Group

There are no other relevant standards, amendments or interpretations issued by IFRS Interpretation Committee that are issued but not yet effective that would be expected to have a material impact on the Group's interim condensed consolidated financial statements.

2.8 Liability to the unitholders

The Group has a liability payable to the remaining unitholders when an investment fund is consolidated. The liability is initially recognised at the fair value of the units. All subsequent changes in liability are recognised in the consolidated statement of comprehensive income. The liability represents a pro-rata share of net assets, entitled to the unitholders, in the event of liquidation of the fund. This is determined by way of division of the fund's net assets by the number of units held by other unitholders.

3 Significant accounting judgements, estimates and assumptions

The preparation of condensed consolidated interim financial statements requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and the underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the annual consolidated financial statements for the year ended 31 December 2020, except for the updates as mentioned below:

Impairment of investment properties and development properties

The Group assesses investment properties and development properties for impairment at each reporting date. A fair value assessment is carried out by an external valuation expert that holds recognized and relevant professional qualifications and has recent experience in the location and category of the properties being valued. In determining the valuation, the valuation expert used the market valuation methodology and residual value that are based on significant assumptions and estimates. The valuation expert carried out full scope valuation at the year ended 31 December 2020 and performed an update of valuation at 30 June 2021. As per the valuation by the external valuation expert, the Group has significant headroom in valuation of investment properties and development properties. As at the reporting date, if the fair value of investment properties and development properties has declined by 25% as compared to 31 December 2020, there is still no risk of impairment. Please also see Note 4 and 5 for details.

**Knowledge Economic City Company
(A Saudi Joint Stock Company)**

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month and nine-month period ended 30 September 2021

(Amounts in Saudi Riyals unless otherwise stated)

3 Significant accounting judgements, estimates and assumptions (continued)

Consolidation of a Riyadh Real Estate Development Fund - Madinah Gate

As noted above, the Group invested in the Riyadh Real Estate Development Fund – Madinah Gate (the “Fund”) by way of contributing in kind the full shares of its wholly owned subsidiary (Madinah Gate Co.) and cash contribution. Due to these contributions to the Fund, the Group holds 75% of the units and accordingly such voting rights of the Fund. As part of the arrangement, the Group is appointed as the development manager of the Fund. On this basis, management assessed if the Fund should be consolidated by the Group.

In performing the assessment whether the Group controls the fund consideration was given to the purpose and design of the Fund, the level of predetermined activities, the substantive rights held by the Group over the relevant activities of the Fund and the Group’s exposure to the variable returns of the Fund.

The key objective of the Fund is to achieve capital growth through direct investment in the real estate sector of Madinah Al Munawarah in the Kingdom of Saudi Arabia and the Fund was designed to ensure the property is developed as per the budget and business plans and agreed with the Group prior to the establishment of the Fund to achieve maximum return for the unitholders. The Group was involved in the purpose and design of the Fund, selecting the appropriate Fund structure, preparing the budget and business plans in collaboration with the advisors, securing key contracts (contractors, tenants and preliminary financing terms) and ensuring sufficient substantive rights were retained to continue to have power over the Fund.

The most relevant activity was determined as development of the project and leasing the properties to facilitate the sale of the properties to achieve an internal rate of return for the unitholders. As part of the Fund structure, the Fund has appointed the Group as the development manager to develop the properties and secure the tenants to achieve a high selling price. Furthermore, the Group retained special voting rights which further provided the Group with substantive rights. As such, it was concluded that the Group has power over the Fund.

Currently, the Group holds 75% of the units in the Fund as at 30 September 2021 and is also entitled to fees on the services performed as the development manager. As a result, the Group has the most substantial exposures to the variable returns.

Given, the Group has its power to direct the relevant activities of the Fund, has the most significant variable returns and has the ability to use the power to affect the variable returns, management is of the view, the Group should consolidate the Fund. Accordingly, the Fund is consolidated in these condensed consolidated interim financial statements.

The impact of not consolidating the Fund would result in a reduction of total assets by SAR 30.8 million, reduction of total liabilities by SAR 38.7 million and recognitions of gain on disposal of land of SAR 7.9 million.

4. Investment properties

	30 September 2021 (unaudited)	31 December 2020 (audited)
At the beginning of the period/year	2,565,716,142	2,512,980,719
Additions, principally infrastructure cost	22,662,057	52,735,423
Adjustments on settlement of claim (Note 9)	(26,773,966)	-
At the end of the period/year	2,561,604,233	2,565,716,142

Knowledge Economic City Company
(A Saudi Joint Stock Company)
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month and nine-month period ended 30 September 2021
(Amounts in Saudi Riyals unless otherwise stated)

4. Investment properties (continued)

The Group's investment properties are situated in Madinah Al-Munawwarah, Kingdom of Saudi Arabia. The investment properties consist of two classes of assets, land amounting to SAR 1.3 billion (31 December 2020: SAR 1.3 billion) and infrastructure cost amounting to SAR 1.2 billion (31 December 2020: SAR 1.2 billion) based on the nature, characteristics, and risks of each property. The fair value of the Group's investment properties as at 31 December 2020 was valued at SAR 5.5 billion by independent professionally qualified valuers named Amam Company For Real Estate Appraisal ("Amam") using both the market comparable approach and the residual value approach. The valuer updated its valuation as of 30 June 2021 and confirmed that the valuation at 31 December 2020 remains appropriate. The Group's management has performed an assessment and concluded that there are no material change in circumstances between 30 June 2021 and 30 September 2021 that would require adjustment or revaluation to the fair value of the investment properties as at 30 September 2021.

5. Development properties

	30 September 2021 (unaudited)	31 December 2020 (audited)
At the beginning of the period/year	85,808,790	164,625,086
Additions	348,875	3,475,745
Transfer to cost of revenue	(21,185,799)	(82,292,041)
At the end of the period/year	64,971,866	85,808,790

The fair value of the Group's development properties as per Amam's valuation report as at 31 December 2020 approximates SAR 224 million. The valuer updated its valuation as at 30 June 2021 and confirmed that the valuation done at 31 December 2020 remains appropriate. The Group's management has performed an assessment and concluded that there are no material change in circumstances between 30 June 2021 and 30 September 2021 that would require adjustment or revaluation to the fair value of the development properties as at 30 September 2021.

The balances above are split into these categories as follows:

	30 September 2021 (unaudited)	31 December 2020 (audited)
Lands	46,585,932	46,585,932
Properties under development	18,385,934	39,222,858
	64,971,866	85,808,790

6. Contract assets

	30 September 2021 (unaudited)	31 December 2020 (audited)
Costs incurred on completed contracts	242,021,709	221,783,099
Estimated earnings	111,108,326	98,593,002
	353,130,035	320,376,101
Less: billings to-date	(199,209,744)	(153,700,140)
	153,920,291	166,675,961

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6. Contract assets (continued)

The above amounts are included in the condensed consolidated interim statement of financial position under the following captions:

	30 September 2021 (unaudited)	31 December 2020 (audited)
Contract assets – non-current portion	100,337,353	116,704,883
Contract assets – current portion	53,582,938	49,971,078
	153,920,291	166,675,961

Dar Al-Jewar II project was completed, and management has reduced the required advance payment preceding the hand over date of the sold units to its customers and the payment terms were extended for longer periods. Therefore, management accounted for significant financing component for all contracts starting from 1 January 2020.

7. Related party transactions and balances

7.1 Key management compensation

	<u>Three-month period ended</u>		<u>Nine-month period ended</u>	
	30 September 2021 (Unaudited)	30 September 2020 (Unaudited)	30 September 2021 (Unaudited)	30 September 2020 (Unaudited)
Directors' remuneration and related expenses	1,425,000	1,015,150	2,937,000	3,071,450
Remuneration to the key management personnel	1,785,499	1,713,250	5,211,999	5,153,750
Employee termination benefits of key management personnel	113,376	71,789	266,840	218,210

There were no material transactions with other related parties during the three-month and nine-month periods ended 30 September 2021 and 30 September 2020.

7.2 Balances due to related parties

	30 September 2021 (unaudited)	31 December 2020 (audited)
Accrued directors' remuneration	969,000	2,200,000
Balance of employee termination benefits of key management personnel	846,280	579,440

8. Zakat

The Company and its 100% owned subsidiaries file a combined zakat return on consolidated basis since the year 2017. The subsidiaries where the Company's ownership is less than 100% are required to file their separate zakat returns. Prior to the year 2017, the subsidiaries were filing separate zakat declarations on unconsolidated basis. The significant components of the zakat base of each subsidiary under zakat and income tax regulation are principally comprised of shareholders' equity, provisions at the beginning of year, adjusted income, less deductions for the adjusted net book value of property and equipment, investment properties, development properties and any other investments.

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8. Zakat (continued)

The movement in zakat provision is as follows:

	30 September 2021 (unaudited)	31 December 2020 (audited)
Balance at the beginning of the period/year	11,927,492	10,786,541
<i>Provision for:</i>		
Current year	8,754,000	11,980,259
Prior years	332,421	5,286,759
<i>Payments for:</i>		
Current year	(11,345,895)	(10,839,309)
Prior years	(332,421)	(5,286,758)
Balance at the end of the period/year	9,335,597	11,927,492

Status of assessments

The Company and its 100% subsidiaries

The Company and its subsidiaries have filed the zakat returns for the years up to 2020. For 2017 to 2020, the Company has filed a consolidated zakat returns for the Company and its 100% owned subsidiaries and has obtained a zakat certificate valid till 30 April 2022.

During 2020, the Zakat, Tax and Customs Authority (“ZATCA”) issued an assessment for the years 2015 to 2018 claiming additional zakat liability of SAR 27.76 million and the Company settled SAR 1.17 million and objected against the remaining amount. The ZATCA revised the assessment to SAR 25.43 million. The Company decided to escalate the case through the General Secretariat of the Tax Committees (“GSTC”) to assign a hearing session to discuss the Company’s objection. The management believes that the Company has a strong position and the Company’s view should prevail. Moreover, during June 2021, ZATCA has also issued a query in relation to the assessment year 2019 and 2020 which management has already provided responses to ZATCA.

Al Garra

The Company filed its zakat return till 2020 and obtained the necessary zakat certificate valid till 30 April 2022. The Company has finalised its Zakat assessments till the year 2018.

Amaak

Amaak filed its zakat return for the year 2011 till 2016 and informational returns for the years 2017 to 2020. The Company obtained zakat certificate valid till 30 April 2022.

During 2017, the ZATCA issued an assessment for the years 2015 and 2016 for Amaak separately from the consolidated group assessment because it was not part of the approved consolidated zakat arrangement prior to 2017. The ZATCA claimed additional amount of SAR 1.56 million for 2015 and SAR 0.33 million for 2016. The assessment for the year 2015 was reduced to SAR 0.99 million during 2017. Amaak has filed an appeal against ZATCA for assessments for the years 2015 and 2016 with the GSTC. Amaak’s management is confident that the decision of the above assessments will be finalized in Amaak’s favour.

Makarem

Makarem filed its zakat return till 2020 and obtained the necessary zakat certificate valid till 30 April 2022. During 2021, ZATCA has issued a query in relation to the year 2016 and 2018 which management has already provided responses to ZATCA.

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9. Other income

During the three-month period ended 30 June 2021, the Group had won a lawsuit in respect of certain claims from its contractor with respect to delay penalties and cost overruns. The contractor has provided a performance guarantee amounting to SAR 30.4 million. A related party of the contractor filed two cases to object KEC from liquidating the performance guarantee (first case) and return the performance guarantee (second case). The Court has issued its final decision to dismiss the related party of the contractor's fast track case to object the liquidation and the court ruling became final and not challengeable by the related party of the contractor in any competent court; accordingly, KEC had liquidated the performance guarantee and received the amount in its bank account. The court dismissed the second case as well.

During the three-month period ended 30 September 2021, the Court issued its final decision relating to advance payments guarantee amounting to Saudi Riyals 10.3 million and ordered to dismiss the related party appeal to prevent the liquidation of the guarantee. Subsequent to the period ended 30 September 2021 the Group liquidated the guarantee and received the amount in its bank account.

10. Losses per share

The losses per share calculation is given below:

	Three-month period ended		Nine-month period ended	
	30 September 2021 (Unaudited)	30 September 2020 (Unaudited)	30 September 2021 (Unaudited)	30 September 2020 (Unaudited)
Losses per share:				
Net loss attributable to owners of the Company	(2,503,380)	(15,137,623)	(2,575,071)	(22,213,609)
Weighted average number of shares	339,300,000	339,300,000	339,300,000	339,300,000
Basic losses per share (SAR per share)	(0.007)	(0.045)	(0.008)	(0.065)
Losses per share from continuing operations:				
Net loss from continuing operations attributable to owners of the Company	(2,503,380)	(14,967,818)	(2,575,071)	(20,212,337)
Weighted average number of shares	339,300,000	339,300,000	339,300,000	339,300,000
Basic losses per share (SAR per share)	(0.007)	(0.044)	(0.008)	(0.060)

There has been no item of dilution affecting the weighted average number of ordinary shares.

11. Segment information

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different line of services and are managed separately because they require different marketing strategies. For each of the strategic business units, the Group's top management reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

Real estate development segment represents activities related to developing real estate, economic cities and other development projects in the Kingdom of Saudi Arabia.

Investment segment represents financial position and financial results of Group's equity accounted investees and other short-term investments provided in the Kingdom of Saudi Arabia.

Segment results that are reported to the top management (Chairman Board of Directors, Chief Executive Officer (CEO) and Chief Financial Officer (CFO)) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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11 Segment information (continued)

Information regarding the results of each reportable segment is included in the note. Performance is measured based on segment revenues and net (loss) income, as included in the internal management reports that are reviewed by the top management.

Selected financial information as at 30 September 2021 and 31 December 2020 and for the three-month and nine-month periods ended on 30 September 2021 and 2020, summarized by segment, is as follows:

	Real estate development	Investment	Held for sale	Total
Condensed consolidated interim statement of financial position				
As at 30 September 2021 (Unaudited)				
Investment properties	2,561,604,233	-	-	2,561,604,233
Development properties	64,971,866	-	-	64,971,866
Total assets	3,248,010,857	45,249,452	-	3,293,260,309
Total liabilities	104,106,647	-	-	104,106,647
As at 31 December 2020 (Audited)				
Investment properties	2,565,716,142	-	-	2,565,716,142
Development properties	85,808,790	-	-	85,808,790
Short term investment	-	46,088,167	-	46,088,167
Total assets	3,101,778,948	161,279,119	-	3,263,058,067
Total liabilities	71,379,524	-	-	71,379,524
Condensed consolidated interim statement of profit or loss				
Nine-month period ended 30 September 2021 (Unaudited)				
Revenues derived from external customers				
Revenue – At point in time	3,995,767	-	-	3,995,767
Revenue – Overtime	29,516,172	-	-	29,516,172
Finance income	-	1,853,413	-	1,853,413
Depreciation and amortization	2,343,354	-	-	2,343,354
Zakat expense	9,086,421	-	-	9,086,421
Net loss	(4,487,296)	1,853,413	-	(2,633,883)
Nine-month period ended 30 September 2020 (Unaudited)				
<u>Revenues derived from external customers</u>				
Revenue – At point in time	2,198,979	-	759,870	2,958,849
Revenue – Overtime	90,156,203	-	-	90,156,203
Finance income	-	4,920,070	-	4,920,070
Depreciation and amortization	2,878,642	-	7,304	2,885,946
Zakat expense	13,205,936	-	-	13,205,936
Net profit/(loss)	(25,162,842)	4,920,070	(2,001,272)	(22,244,044)

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11 Segment information (continued)

	Real estate development	Investment	Held for sale	Total
Condensed consolidated interim statement of profit or loss Three-month period ended 30 September 2021 (Unaudited)				
<u>Revenues derived from external customers</u>				
Revenue – At point in time	1,495,378	-	-	1,495,378
Revenue – Overtime	-	-	-	-
Finance income	-	589,295	-	589,295
Depreciation and amortization	849,084	-	-	849,084
Zakat expense	3,000,000	-	-	3,000,000
Net (loss)/profit	(2,882,972)	589,295	-	(2,293,677)
Three-month period ended 30 September 2020 (Unaudited)				
<u>Revenues derived from external customers</u>				
Revenue – At point in time	717,042	-	382	717,424
Revenue – Overtime	9,178,081	-	-	9,178,081
Finance income	-	688,922	-	688,922
Depreciation and amortization	870,222	-	248	870,470
Zakat expense	6,689,820	-	-	6,689,820
Net (loss)/profit	(15,667,274)	688,922	(169,805)	(15,148,157)

12. Contingencies and commitments

As at 30 September 2021, capital and consultancy expenditures contracted by the Group, but not incurred on that date were approximately SAR 400.9 million (31 December 2020: SAR 80.6 million).

The Madinah Gate Fund has arranged a facility of SAR 260 million from Riyadh Bank at the prevailing market rates. As of September 30, 2021, The Fund has not availed such facility.

13. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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13. Fair value measurement (continued)

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

If the inputs used to measure the fair value of an asset or liability falls into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement. The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There were no transfers among the levels during the period.

The management assessed that the fair value of cash and cash equivalents, short-term investments, trade and other receivables and trade payables approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair value of investments carried at amortised cost is determined to be SAR 124.2 million (Level 2).

14. Covid-19 impact

The spread of coronavirus (COVID-19) across multiple geographies was confirmed in early 2020, causing significant macro-economic uncertainty, disruptions to businesses and economic activities. The Saudi Arabian government has taken many initiatives to contain the spread of virus which included restrictions on travel, gathering of people, roll out of vaccination program. To preserve the health of the employees and support the prevention of contagion in the operational and administrative areas, the Group took measures, in line with the recommendations of the World Health Organisation and Ministry of Health, social distancing at workplace, rigorous cleaning of workplaces, distribution of personal protective equipment, testing of suspected cases, limiting non-essential travel, self-health declarations and measuring body temperature.

The Group's management carried out an impact assessment on the overall Group's operations and business aspects and concluded that, as at the reporting date of these condensed consolidated interim financial statements, the Group did not have significant adverse impact on its operations and businesses due to COVID-19 and the Group does not expect any significant impact on the balances as at 30 September 2021 especially around impairment of investment and development properties due to the nature of properties. Please also see Note 3, 4 and 5.

The operational and financial impacts of the COVID-19 pandemic to date have been reflected in these condensed consolidated interim financial statements. The strong financial position, including access to funds and absence of debt, coupled with the actions the Group has taken to date ensures that the Group has the capacity to continue through the challenges caused by the COVID-19 pandemic. Based on the financial position and likely scenarios assessed, the management does not believe any significant issues in relation to the going concern aspect.

As the situation is evolving with future uncertainties, the management and those charged with governance will continue to assess the impact based on prospective developments and accordingly update all stakeholders as soon as more information is available.

