# 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 2020**

Building a better
working world

**Ernst & Young & Co. (Certified Public Accountants)**
**General Partnership**
**Head Office**
Al Faisaliah Office Tower, 14th Floor
King Fahad Road
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Registration No. 45/11/323
C.R. No. 1010383821

Tel: +966 11 215 9898
+966 11 273 4740
Fax: +966 11 273 4730

ey.ksa@sa.ey.com
ey.com/mena

**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 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of 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 2020, 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.

**Emphasis of Matters**

- We draw attention to note (15-a) to the consolidated financial statements for the year ended 31 December 2020, as stated therein, certain land parcels owned by the Company are currently not available for use or development due to various reasons, of which certain reasons relate to the areas where these lands are located and other related to the fact that they are under study from specialised committees to resolve these matters. The management is currently communicating with the related government agencies and committees to address these reasons to allow the use of these lands. The impact on the net realisable value of these lands is still uncertain and depend on the final results of the study by the assigned committees. The carrying value of these lands amounted to SR 417 million as at 31 December 2020.

- We further draw attention to note (15-b) to the consolidated financial statements. As stated therein, subsequent to the year ended 31 December 2020; it has come to management's attention that the land which was designated for the Al Widyan project is located within an area that is currently under study by the relevant government agencies with the aim of developing it, which may result into a fundamental change to the original project's plan and may impact the land's realisable value.

**Independent Auditor’s Report**
**To the shareholders of Saudi Real Estate Company**
**(A Saudi Joint Stock Company) (continued)**

**Emphasis of matters (continued)**

The effect of the extent of this study remains uncertain and is dependent on future development by the relevant government agencies’ plan. The carrying value of the land and capital work-in-progress amounted to SR 2,168 million and SR 829 million respectively as at 31 December 2020.

Our opinion has not been modified in respect of the above matters.

**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.

**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***<br><br>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.<br><br>As shown in the consolidated statements of financial position, the current liabilities of the Group exceeded its current assets by SR 1,993 million. The consolidated financial statements have been prepared on a going concern basis.<br><br>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.<br><br>*Refer to note 39 "liquidity risk" to the consolidated financial statements.* | *Our audit procedures comprised, amongst others:*<br><br>• Reviewed the management's cash flows forecast to understand the model used in preparation of the cash flows for the purpose of the going concern assessment.<br><br>• Assessed 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.<br><br>• Reviewed the existing loan facilities agreements (including any amendment and extension) relating to loan covenants, unutilised borrowings and others.<br><br>• 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.<br><br>• Ensured adequacy of the related disclosures in the notes to the consolidated financial statement. |

**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** |
|---|---|
| ***Investments properties***<br><br>As at 31 December 2020, investments properties of SR 6,033 million represent around 80% of the Group's consolidated total assets, which are stated at cost, net of accumulated depreciation and impairment, if any.<br><br>For the purpose of impairment assessment and the disclosure of the fair value in the Group's consolidated financial statements, the 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.<br><br>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.<br><br>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:*<br><br>• Assessed the Valuer's objectivity, independence and experience.<br><br>• Compared the fair value of investment properties held at year end to the valuation results included in the valuation report provided by the Valuer.<br><br>• Ensured that proper valuation technique and methodology are adopted by the Valuer.<br><br>• 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.<br><br>• Obtained the title deeds for the investment properties and discussed the current status of these with the management and in-house legal department.<br><br>• 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 2020 Annual Report**

Other information consists of the information included in the Group's 2020 annual report, other than the consolidated financial statements and auditor's report thereon. Management is responsible for the other information in its annual report. The Group's 2020 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 2020 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.

Those 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.

**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, actions taken to eliminate threats or safeguards applied.

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 period 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: 18 Sha'ban 1442H
(31 March 2021)

ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS
PROFESSIONAL LICENCE No. 45

# CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2020
(In Saudi Riyals Thousands, unless otherwise indicated)

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 7 | **499,855** | 338,021 |
| Cost of revenue | 8 | **(358,717)** | (166,387) |
| **Gross profit** | | **141,138** | 171,634 |
| General and administrative expenses | 9 | **(171,530)** | (211,138) |
| Selling and marketing expenses | 10 | **(52,631)** | (45,146) |
| **Operating loss** | | **(83,023)** | (84,650) |
| Financial charges | 11 | **(17,294)** | (44,825) |
| Declined in value of investment properties | 15 | **(82,698)** | (34,377) |
| Impairment provision for prepayments and other receivables | 20 | **(38,370)** | (10,865) |
| Impairment of property and equipment | 14 | **(5,755)** | - |
| Write-off of capital work-in-progress | 15 | **-** | (63,135) |
| Gain on revaluation of investments designated at FVPL | 18 | **9,646** | 12,171 |
| Share of profit of an associate | 16 | **16,042** | 17,446 |
| Dividends income | | **6,019** | 9,148 |
| Other income | 12 | **66,305** | 4,628 |
| Gain on disposal of investments designated at FVPL | 18 | **-** | 23,019 |
| **Loss before zakat from continuing operations** | | **(129,128)** | (171,440) |
| Zakat | 36 | **(25,304)** | (12,687) |
| **Loss for the year from continuing operations** | | **(154,432)** | (184,127) |
| Loss after zakat from discontinued operations | 22 | **(4,661)** | (13,919) |
| **Net loss for the year** | | **(159,093)** | (198,046) |
| **Attributable to:** | | | |
| Equity holders of the parent company | | **(140,741)** | (186,351) |
| Non-controlling interests | 27 | **(18,352)** | (11,695) |
| | | **(159,093)** | (198,046) |
| **Loss per share (SR):** | | | |
| Basic and diluted loss for the year attributable to equity holders of the parent company | 13 | **(0.59)** | (0.78) |
| **Loss per share for continuing operations (SR):** | | | |
| Basic and diluted loss from continuing operations for the year attributable to equity holders of the parent company | 13 | **(0.57)** | (0.74) |

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

The attached notes 1 to 43 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020
(In Saudi Riyals Thousands, unless otherwise indicated)

| | Notes | **2020** | 2019 |
|---|---|---|---|
| **Net loss for the year** | | **(159,093)** | (198,046) |
| **Other comprehensive income (loss):** | | | |
| *Other comprehensive income (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 | **31,284** | (4,756) |
| Share of other comprehensive income of an associate | 16 | **3,479** | 1,705 |
| **Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods** | | **34,763** | (3,051) |
| *Other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of zakat):* | | | |
| Remeasurement loss on defined benefit plan | 30 | **(2,691)** | (3,473) |
| **Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods** | | **(2,691)** | (3,473) |
| **Total other comprehensive income (loss) for the year** | | **32,072** | (6,524) |
| **Total comprehensive loss for the year (net of zakat)** | | **(127,021)** | (204,570) |
| **Attributable to:** | | | |
| Equity holders of the parent company | | **(107,768)** | (192,437) |
| Non-controlling interests | 27 | **(19,253)** | (12,133) |
| | | **(127,021)** | (204,570) |

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

The attached notes 1 to 43 form an integral part of these consolidated financial statements.

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020
(In Saudi Riyals Thousands, unless otherwise indicated)

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property and equipment | 14 | **35,078** | 52,633 |
| Investments properties | 15 | **6,032,906** | 5,986,655 |
| Intangible assets | | **11,401** | 13,830 |
| Investment in an associate | 16 | **252,663** | 243,141 |
| Investments in equity instruments designated at FVOCI | 18 | **281,636** | 384,722 |
| Investments designated at FVPL | 18 | **66,755** | 57,109 |
| Right-of-use assets | 31 | **73,146** | 74,529 |
| **TOTAL NON-CURRENT ASSETS** | | **6,753,585** | 6,812,619 |
| **CURRENT ASSETS** | | | |
| Trade receivables | 19 | **146,298** | 96,987 |
| Prepayments and other receivables | 20 | **103,667** | 98,946 |
| Inventories | | **5,824** | 6,022 |
| Cash and cash equivalents | 21 | **523,319** | 184,480 |
| **TOTAL CURRENT ASSETS** | | **779,108** | 386,435 |
| Assets held for sale | 22 | **5,845** | - |
| **TOTAL ASSETS** | | **7,538,538** | 7,199,054 |
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| Share capital | 23 | **2,400,000** | 2,400,000 |
| Statutory reserve | 24 | **720,000** | 720,000 |
| Contractual reserve | 25 | **10,051** | 10,051 |
| Accumulated losses | | **(262,914)** | (159,043) |
| Other reserves | 26 | **(6,125)** | (2,228) |
| **Equity attributable to equity holders of the parent company** | | **2,861,012** | 2,968,780 |
| Non-controlling interests | 27 | **(21,744)** | (2,491) |
| **TOTAL EQUITY** | | **2,839,268** | 2,966,289 |
| **NON-CURRENT LIABILITIES** | | | |
| Term loans | 28 | **516,687** | 645,411 |
| Loan from a related party | 29 | **1,301,636** | - |
| Employees' defined benefit obligations | 30 | **25,392** | 22,629 |
| Lease liabilities | 31 | **71,030** | 75,834 |
| **TOTAL NON-CURRENT LIABILITIES** | | **1,914,745** | 743,874 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 32 | **92,264** | 91,068 |
| Accruals and other liabilities | 33 | **220,714** | 169,725 |
| Unearned revenue | 34 | **108,337** | 103,537 |
| Term loans – current portion | 28 | **2,294,262** | 2,074,077 |
| Loan from a related party – current portion | 29 | **-** | 1,012,647 |
| Zakat provision | 36 | **56,608** | 37,837 |
| **TOTAL CURRENT LIABILITIES** | | **2,772,185** | 3,488,891 |
| Liabilities directly associated with the assets held for sale | 22 | **12,340** | - |
| **TOTAL LIABILITIES** | | **4,699,270** | 4,232,765 |
| **TOTAL EQUITY AND LIABILITIES** | | **7,538,538** | 7,199,054 |

Chief Financial Officer | Chief Executive Officer and Manging Director | Chairman, Board of Directors

The attached notes 1 to 43 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020
(In Saudi Riyals Thousands, unless otherwise indicated)

| | *Attributable to equity holders of the parent company* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Share capital* | *Statutory Reserve* | *Contractual Reserve* | *Accumulated losses* | *Other reserves* | *Total* | *Non-controlling Interests* | *Total equity* |
| **As at 1 January 2019** | **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** |
| Net loss for the year | - | - | - | (140,741) | - | (140,741) | (18,352) | (159,093) |
| Other comprehensive income (loss) for the year | - | - | - | - | 32,973 | 32,973 | (901) | 32,072 |
| Total comprehensive loss for the year | - | - | - | (140,741) | 32,973 | (107,768) | (19,253) | (127,021) |
| Transfer from other reserves to accumulated losses (note 18) | - | - | - | 36,870 | (36,870) | - | - | - |
| **Balance as at 31 December 2020** | **2,400,000** | **720,000** | **10,051** | **(262,914)** | **(6,125)** | **2,861,012** | **(21,744)** | **2,839,268** |

Chief Financial Officer

Chief Executive Officer and Manging Director

Chairman, Board of Directors

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

# CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2020
(In Saudi Riyals Thousands, unless otherwise indicated)

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Loss before zakat from continuing operations | | **(129,128)** | (171,440) |
| Loss before zakat from discontinued operations | 22 | **(4,643)** | (13,729) |
| *Adjustments to reconcile loss before zakat to net cash flows:* | | | |
| Depreciation and impairment of property and equipment and investments properties | | **76,070** | 64,338 |
| Amortisation of intangibles assets | | **2,429** | 2,380 |
| Deprecation of right-of-use assets | 31 | **1,383** | 1,379 |
| Share in profit of an associate | 16 | **(16,042)** | (17,446) |
| Expected credit losses provision | 19 | **23,144** | 12,878 |
| Gain on disposal of investments designated as at FVPL | 18 | **-** | (23,019) |
| Gain on revaluation of investments designated as at FVPL | 18 | **(9,646)** | (12,171) |
| Gain on disposal of investment properties | 15 | **(44,316)** | - |
| Write-off of capital work-in- progress | 15 | **-** | 63,135 |
| Decline in value of investment properties | 15 | **82,698** | 34,377 |
| Impairment provision for prepayments and other receivables | 20 | **38,370** | 10,865 |
| Provision of employees' defined benefit obligations | 30 | **7,103** | 8,284 |
| | | **27,422** | (40,169) |
| *Working capital increase/decrease:* | | | |
| Trade receivables | | **(72,863)** | (21,102) |
| Derivative financial instruments | | **-** | 2,369 |
| Prepayments and other receivables | | **(46,234)** | 62,821 |
| Inventories | | **198** | 37 |
| Trade payables | | **4,865** | 4,435 |
| Accruals and other liabilities | | **58,596** | 51,000 |
| Unearned revenue | | **4,800** | (36,360) |
| Cash (used in) from operations | | **(23,216)** | 23,031 |
| Employees' defined benefit obligations paid | 30 | **(6,159)** | (7,554) |
| Zakat paid | 36 | **(6,359)** | (15,650) |
| Financial charges paid | | **(97,341)** | (115,566) |
| **Net cash flows used in operating activities** | | **(133,075)** | (115,739) |
| **INVESTING ACTIVITIES** | | | |
| Additions to property and equipment | 14 | **(9,201)** | (12,173) |
| Proceeds from disposal of investments in equity instruments designated at FVOCI | 18 | **134,370** | 13,770 |
| Dividends received from an associate | 16 | **9,999** | 11,667 |
| Proceeds from sale of investments designated at FVPL | 18 | **-** | 248,919 |
| Additions to intangible assets | | **-** | (4,497) |
| Additions to investments properties | 15 | **(86,499)** | (230,907) |
| Proceeds from disposal of investments properties | 15 | **53,611** | - |
| Proceeds from disposal of property and equipment | | **83** | 1,699 |
| **Net cash flows from investing activities** | | **102,363** | 28,478 |
| **FINANCING ACTIVITIES** | | | |
| Term loans | 28 | **91,461** | (55,443) |
| Loan from a related party | 29 | **288,989** | - |
| Lease liabilities paid | 31 | **(9,463)** | (4,540) |
| **Net cash flows from (used in) financing activities** | | **370,987** | (59,983) |
| **Increase (decrease) in cash and cash equivalents** | | **340,275** | (147,244) |
| Cash and cash equivalents at the beginning of the year | | **184,480** | 331,724 |
| **Cash and cash equivalents at the end of the year** | 21 | **524,755** | 184,480 |

Chief Financial Officer    Chief Executive Officer and Manging Director    Chairman, Board of Directors

The attached notes 1 to 43 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)* | |
|---|---|---|---|---|---|---|
| | | | | | ***2020*** | ***2019*** |
| 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%** | 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 ) (note 41).

(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) (note 22).

(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 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 over those policies.

The considerations made in determining significant influence 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. 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 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.

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

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Revenue recognition (continued)**

*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.

*Contracts revenue*
Revenue from fixed price contracts is recognised based on the percentage of completion method, which is determined using the proportion of costs incurred to date to the total costs for the completion of the contracts as estimated by the management. No profit is recognised on contract until the management believes the outcome of that contract can be assessed with reasonable certainty. In case of loss-making contract, full provision is made for estimated future losses. The value of work executed in excess of the amounts billed is included under current assets, net of provision for any losses incurred or foreseen in bringing contracts to completion, advances against work executed and progress billing received and receivable. Where progress amounts received, and receivable exceed the value of work executed the excess is included under current liabilities as billing in excess of the value of work executed.

Contract modifications, e.g. variation orders, are accounted for as part of the existing contract, with a cumulative catch up adjustment to revenue. For material contract modifications a separate contract may be recognised, based on management's assessment of the following factors:

- the scope of the contract increases because of the addition of promised goods or services that are distinct; and
- the price of the contract increases by an amount of consideration that reflects the Company's stand-alone selling prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract.

*Contract balances*
*Value of work executed in excess of billings (accrued infrastructure revenue)*
Value of work executed in excess of billings is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, value of work executed in excess of billings is recognised for the earned consideration that is conditional.

*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.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 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.

**Investments properties**
Investments Properties 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

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property and equipment (continued)**

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.

**Non-current assets held for sale and discontinued operations**

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after zakat from discontinued operations in the consolidated statement of profit or loss

All other notes to the consolidated financial statements include amounts for continuing operations, unless indicated otherwise.

The Board of directors considered the subsidiary, Alakaria Hanmi for Project Management to meet the criteria to be classified as held for sale at that date for the following reasons:

- Alakaria Hanmi for Project Management is available for immediate sale and can be sold to the buyer in its current condition;
- The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification;
- A potential buyer has been identified and negotiations as at the reporting date are at an advance stage; and
- The Board of directors approved the plan to sell on 2 September 2020.

**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.

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.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Foreign currency (continued)**

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 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.

*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.

**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.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

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 ERP 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.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

- FVPL

Financial assets at fair value through profit or loss 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.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**i) Financial assets (continued)**

De-recognition

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.

Impairment

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:

a) Stage 1: 12-months ECL
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.

b) Stage 2: Lifetime ECL - not credit impaired
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.

c) Stage 3: Lifetime ECL - credit impaired
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.

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.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**i) Financial assets (continued)**

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.

**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)**

**New and amended standards and interpretations**

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

**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.

**Conceptual Framework for Financial Reporting issued on 29 March 2018**
The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

**Amendments to IFRS 16 Covid-19 Related Rent Concessions**
On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Standards issued but not yet effective**

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

**Amendments to IAS 1: Classification of Liabilities as Current or Non-current**
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

**Reference to the Conceptual Framework – Amendments to IFRS 3**
In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

**Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16**
In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

**Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37**
In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Standards issued but not yet effective (continued)**

**IFRS 9 Financial Instruments – Fees in the ’10 per cent’ test for derecognition of financial liabilities**
As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group

**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.

*Contract costs to complete estimates*
The Group estimates the cost to complete the projects in order to determine the cost attributable to revenue being recognised. These estimates include, among other items, the construction costs, variation orders and the cost of meeting other contractual obligations to the customers. Such estimates are reviewed at regular intervals. Any subsequent changes in the estimated cost to complete the project may affect the results of the subsequent periods.

*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.

**5. USE OF ESTIMATES AND JUDGMENTS (continued)**

*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 assessments 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

C. Service sector

D. Head office

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 2020** | | | | | |
| Revenue | **130,814** | **332,451** | **36,590** | **-** | **499,855** |
| Cost of revenue | **(68,946)** | **(275,996)** | **(13,775)** | **-** | **(358,717)** |
| Gross profit | **61,868** | **56,455** | **22,815** | **-** | **141,138** |
| General and administrative expenses | **-** | **-** | **-** | **(171,530)** | **(171,530)** |
| Selling and marketing expenses | **-** | **-** | **-** | **(52,631)** | **(52,631)** |
| Financial charges | **-** | **-** | **-** | **(17,294)** | **(17,294)** |
| Decline in value of investment properties | **-** | **-** | **-** | **(82,698)** | **(82,698)** |
| Impairment provision for prepayments and other receivables | **-** | **-** | **-** | **(38,370)** | **(38,370)** |
| Impairment of property and equipment | **-** | **-** | **-** | **(5,755)** | **(5,755)** |
| Gain on revaluation of investments designated at FVPL | **-** | **-** | **-** | **9,646** | **9,646** |
| Share of profit of an associate | **-** | **-** | **-** | **16,042** | **16,042** |
| Dividends income | **-** | **-** | **-** | **6,019** | **6,019** |
| Other income | **-** | **-** | **-** | **66,305** | **66,305** |
| **Segment profit (loss) before zakat** | **61,868** | **56,455** | **22,815** | **(270,266)** | **(129,128)** |
| **Total assets** | **1,688,584** | **2,676,153** | **46,987** | **3,126,814** | **7,538,538** |
| **Total liabilities** | **229,418** | **186,852** | **29,243** | **4,253,757** | **4,699,270** |

(In Saudi Riyals Thousands, unless otherwise indicated)

**6. SEGMENT INFORMATION (continued)**

| | **Residential** | **Commercial** | **Service** | **Head office** | **Total** |
|---|---|---|---|---|---|
| As at 31 December 2019 | | | | | |
| Revenue | 124,563 | 177,414 | 36,044 | - | 338,021 |
| Cost of revenue | (53,079) | (89,089) | (24,219) | - | (166,387) |
| Gross profit | 71,484 | 88,325 | 11,825 | - | 171,634 |
| General and administrative expenses | - | - | - | (211,138) | (211,138) |
| Selling and marketing expenses | - | - | - | (45,146) | (45,146) |
| Financial charges | - | - | - | (44,825) | (44,825) |
| Decline in value of investment properties | - | - | - | (34,377) | (34,377) |
| Impairment provision for prepayments and other receivables | - | - | - | (10,865) | (10,865) |
| Write-off of capital work-in-progress | - | - | - | (63,135) | (63,135) |
| Gain on revaluation of investments designated at FVPL | - | - | - | 12,171 | 12,171 |
| Share of profit of an associate | - | - | - | 17,446 | 17,446 |
| Dividends income | - | - | - | 9,148 | 9,148 |
| Other income | - | - | - | 4,628 | 4,628 |
| Gain on disposal of investments designated at FVPL | - | - | - | 23,019 | 23,019 |
| **Segment profit (loss) before zakat** | 71,484 | 88,325 | 11,825 | (343,074) | (171,440) |
| **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)

## 7. REVENUE

| | For the year ended | |
|---|---|---|
| | **2020** | 2019 |
| Rental revenues (note 34) | **252,694** | 263,569 |
| Infrastructure revenue | **199,836** | 3,703 |
| Facility management | **36,590** | 36,044 |
| Constructions revenue | **10,735** | 34,705 |
| | **499,855** | 338,021 |

## 8. COST OF REVENUE

| | For the year ended | |
|---|---|---|
| | **2020** | 2019 |
| Materials cost | **91,803** | 18,204 |
| Sub-contract | **84,011** | - |
| Employees' salaries, wages and other related benefits | **81,487** | 63,227 |
| Depreciation | **61,852** | 47,190 |
| Maintenance expenses | **24,911** | 30,208 |
| Others | **14,653** | 7,558 |
| | **358,717** | 166,387 |

## 9. GENERAL AND ADMINISTRATIVE EXPENSES

| | For the year ended | |
|---|---|---|
| | **2020** | 2019 |
| Employees' salaries, wages and other related benefits | **93,281** | 85,283 |
| Professional, consulting and governmental fees | **40,011** | 44,564 |
| Attendance allowance and committee’s remuneration (note 35) | **11,408** | 10,447 |
| IT expenses | **6,354** | 2,734 |
| Depreciation | **4,572** | 3,400 |
| Amortization of intangible assets | **3,728** | 6,598 |
| Management and restructuring fees for Alinma Alakaria Real Estate Fund | **-** | 28,114 |
| Provision for white idle land fee | **-** | 17,191 |
| Others | **12,176** | 12,807 |
| | **171,530** | 211,138 |

## 10. SELLING AND MARKETING EXPENSES

| | For the year ended | |
|---|---|---|
| | **2020** | 2019 |
| Expected credit losses (note 19) | **23,144** | 12,878 |
| Sales commission | **13,671** | - |
| Employees' salaries, wages and other related benefits | **11,203** | 7,577 |
| Promotions and advertisement | **3,132** | 23,283 |
| Others | **1,481** | 1,408 |
| | **52,631** | 45,146 |

(In Saudi Riyals Thousands, unless otherwise indicated)

## 11. FINANCIAL CHARGES

| | For the year ended | |
|---|---|---|
| | **2020** | 2019 |
| Bank loans | **12,635** | 38,932 |
| Finance cost on lease liabilities (note 31) | **4,659** | 4,466 |
| Derivatives | **-** | 1,427 |
| | **17,294** | 44,825 |

During the year ended 31 December 2020, an amount of SR 102 million (2019: SR 145 million) was capitalised as cost of borrowing for the construction of the projects under constructions (note 15).

## 12. OTHER INCOME

| | For the year ended | |
|---|---|---|
| | **2020** | 2019 |
| Gain in disposal of lands (note 15) | **44,316** | - |
| Reversal of fund's management fees accrued no longer required* | **18,847** | - |
| Finance income | **681** | 1,672 |
| Other estate revenue | **655** | 1,064 |
| Others | **1,806** | 1,892 |
| | **66,305** | 4,628 |

* The management of the Company have agreed with the fund manager of Alinma Alakaria Real Estate Fund (fully owned fund) to waive of management fees previously accrued amounting to SR 18.8 million on liquidation of the fund. The fund is currently under liquidation and the legal proceeding to liquidate the fund are not complete as of 31 December 2020.

## 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:

| | **2020** | 2019 |
|---|---|---|
| Loss attributable to ordinary equity holders of the: | | |
| Continued operations | **(137,943)** | (178,000) |
| Discontinued operations | **(2,798)** | (8,351) |
| | **(140,741)** | (186,351) |
| Weighted average number of ordinary shares (share) | **240,000** | 240,000 |
| Basic and diluted loss per share (SR) | **(0.59)** | (0.78) |
| Basic and diluted loss per share for continuing operations (SR) | **(0.57)** | (0.74) |

(In Saudi Riyals Thousands, unless otherwise indicated)

**14. PROPERTY AND EQUIPMENT**

| | *Buildings* | *Machinery & equipment* | *Furniture & decorations* | *Computers* | *Vehicles* | *Capital work-in-progress* | *Total* |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| **At 1 January 2019** | **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** |
| Additions | - | 7,964 | 141 | 1,022 | 74 | - | 9,201 |
| Disposals | - | (289) | (81) | (601) | (321) | - | (1,292) |
| Assets held for sale (note 22) | - | (89) | (1,152) | (453) | - | - | (1,694) |
| **At 31 December 2020** | **10,490** | **102,011** | **16,325** | **12,084** | **8,459** | - | **149,369** |
| **Depreciation and impairment:** | | | | | | | |
| **At 1 January 2019** | **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** |
| Charge for the year | 223 | 14,949 | 1,771 | 1,947 | 1,170 | - | 20,060 |
| Impairment | - | 5,755 | - | - | - | - | 5,755 |
| Relating to disposals | - | (217) | (71) | (601) | (320) | - | (1,209) |
| Assets held for sale (note 22) | - | (38) | (599) | (199) | - | - | (836) |
| **At 31 December 2020** | **8,005** | **77,008** | **13,458** | **8,615** | **7,205** | - | **114,291** |
| **Net book value:** | | | | | | | |
| **At 31 December 2020** | **2,485** | **25,003** | **2,867** | **3,469** | **1,254** | - | **35,078** |
| At 31 December 2019 | 2,708 | 37,866 | 5,060 | 4,648 | 2,351 | - | 52,633 |

(In Saudi Riyals Thousands, unless otherwise indicated)

## 15. INVESTMENTS PROPERTIES

| | *Lands* | *Buildings* | *Fittings and decorations* | *Capital work-in-progress* | *Total* |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At 1 January 2019 | **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** |
| Additions | - | - | 3,863 | 184,636 | 188,499 |
| Disposals and adjustments | (9,295) | - | - | - | (9,295) |
| Transfers from capital work-in- progress | - | 52,643 | 85,597 | (138,240) | - |
| **At 31 December 2020** | **3,414,872** | **1,493,538** | **676,335** | **1,469,284** | **7,054,029** |
| **Depreciation and decline in value:** | | | | | |
| At 1 January 2019 | - | **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 and adjustment | - | - | (17) | - | (17) |
| Reclassification | - | (14,863) | 14,863 | - | - |
| At 31 December 2019 | **20,400** | **532,350** | **321,443** | **13,977** | **888,170** |
| Charge for the year | - | 29,310 | 20,945 | - | 50,255 |
| Decline in value | - | 6,305 | - | 76,393 | 82,698 |
| Transfers of impairment relating to project completed | - | 13,977 | - | (13,977) | - |
| **At 31 December 2020** | **20,400** | **581,942** | **342,388** | **76,393** | **1,021,123** |
| **Net book value:** | | | | | |
| **At 31 December 2020** | **3,394,472** | **911,596** | **333,947** | **1,392,891** | **6,032,906** |
| At 31 December 2019 | 3,403,767 | 908,545 | 265,432 | 1,408,911 | 5,986,655 |

As at 31 December 2020, an amount of SR 102 million (2019: SR 145 million) was capitalised as cost of borrowing for the construction of the projects under constructions (notes 11,28 and 29).

(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 10.1 billion as at 31 December 2020 (31 December 2019: 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, buildings and capital work-in-progress amounting to SR 6.3 million and SR 71.7 million (2019: SR 20.4 million and SR 13.97 million) respectively.

During 2019, 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 million were written off.

During the year the Group disposed lands having carrying value of SR 9.3 million, for SR 53 million recognizing a gain of SR 44.3 million (note 12).

Certain lands having carrying value of SR 2 billion (2019: SR 2 billion) are pledged against an Islamic loan from a local bank (note 28).

Investment properties include buildings with net book value amounting SR 626 million (2019: SR 639 million) 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.

***a) Lands not available for used***

Certain land parcels owned by the Company are currently not available for use or development due to various reasons, of which certain reasons relate to the areas where these lands are located and other related to the fact that they are under study from specialised committees to resolve these matters. The management is currently communicating with the related government agencies and committees to address these reasons to allow the use of these lands. The impact on the net realisable value of these lands is still uncertain and depend on the final results of the study by the assigned committees. The carrying value of these lands amounted to SR 417 million as at 31 December 2020 (2019: SR 417 million).

***b) Subsequent events***

Subsequent to the year ended 31 December 2020, it came to management's attention that the land included in the Company's Al Widyan project is located within an area that is currently under study by the relevant government agencies with the aim of developing it, which may result into a fundamental change to the original project's plan and may impact the land's realisable value. The effect of the extent of this study remains uncertain and dependent on future developments by the relevant government agencies' plan. Management will continue to assess the impact of the developments on the consolidated financial statements. The carrying value of the related land and capital works-in-progress as at 31 December 2020 amounted to SR 2,168 million and SR 829 million respectively (2019: SR 2,168 and SR 790 million respectively).

**16. INVESTMENT IN AN ASSOCIATE**

As of 31 December 2020, and 31 December 2019, 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:

| | **2020** | 2019 |
|---|---|---|
| At the beginning of the year | **243,141** | 235,657 |
| Share of profits | **16,042** | 17,446 |
| Dividends received | **(9,999)** | (11,667) |
| Share of other comprehensive income | **3,479** | 1,705 |
| At the end of the year | **252,663** | 243,141 |

(In Saudi Riyals Thousands, unless otherwise indicated)

## 16. INVESTMENT IN AN ASSOCIATE (continued)

Summarised statement of financial position of Riyadh Holding Company as following:

| | **2020** | 2019 |
|---|---|---|
| Current assets | **204,967** | 178,818 |
| Non-current assets | **1,418,830** | 1,417,670 |
| Current liabilities | **(60,323)** | (86,973) |
| Non-current liabilities | **(47,802)** | (50,963) |
| **Equity** | **1,515,672** | 1,458,552 |
| Group's share in equity – 16.67% | **252,663** | 243,141 |
| **Group's carrying amount of the investment** | **252,663** | 243,141 |

Summarised statement of comprehensive income of Riyadh Holding Company:

| | **2020** | 2019 |
|---|---|---|
| Revenue | **151,906** | 167,767 |
| Cost of revenue | **(74,252)** | (65,522) |
| General and administrative expense | **(13,221)** | (13,687) |
| Other income | **35,717** | 19,131 |
| **Profit before zakat** | **100,150** | 107,689 |
| Zakat | **(3,918)** | (3,036) |
| **Net profit for the year** | **96,232** | 104,653 |
| **Group's share of profit for the year - 16.67%** | **16,042** | 17,446 |
| **Other comprehensive income for the year** | **20,871** | 10,226 |
| **Group's share of other comprehensive income for the year - 16.67%** | **3,479** | 1,705 |

## 17. DEBT INSTRUMENTS AT AMORTISED COST

Debt instruments at amortised cost represents Sukuk of Al Bayan Holding Company amounting to SR 206.3 million (2019: 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

| | **2020** | 2019 |
|---|---|---|
| Investments in equity instruments designated at FVOCI – unquoted equity shares (A) | **281,598** | 311,484 |
| Investments in equity instruments designated at FVOCI – quoted equity shares (B) | **38** | 73,238 |
| Total investments in equity instruments designated at FVOCI | **281,636** | 384,722 |
| Investments designated at FVPL – investment funds (C) | **66,755** | 57,109 |
| Total investments in equity instruments | **348,391** | 441,831 |

(In Saudi Riyals Thousands, unless otherwise indicated)

**18. INVESTMENTS IN EQUITY INSTRUMENTS (continued)**

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

| | *Ownership* | **2020** | 2019 |
|---|---|---|---|
| Economic Knowledge City Developers | 9.48% | **93,436** | 78,178 |
| Um Al Qura Company for Development and Reconstruction | 1.13% | **92,371** | 94,106 |
| Dar Al Tamleek Company | 9.18% | **48,997** | 49,364 |
| Kinan International Real Estate Development Company | 2.11% | **42,188** | 44,205 |
| Al Aqeer Development Company | 5% | **-** | 37,500 |
| United Arabian Flat Glass Company | 4.40% | **3,806** | 7,331 |
| Real Estate Financing Company | 3.2% | **800** | 800 |
| | | **281,598** | 311,484 |

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

| | *Ownership* | **2020** | 2019 |
|---|---|---|---|
| Hail Cement Company | 6.12% | **-** | 73,200 |
| Taiba Investment Company | 0.001% | **38** | 38 |
| | | **38** | 73,238 |

During the year, the Group sold investments designated at FVOCI having initial value of SR 60 million for SR 96.8 million (2019: nil) and gain realized on disposal on this investment since inception amounting to SR 36.8 million was reclassified from other reserves to accumulated losses.

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

| | **2020** | 2019 |
|---|---|---|
| At the beginning of the year | **384,722** | 403,248 |
| Change in fair value of investments | **31,284** | (4,756) |
| Proceeds from disposals and reduction of share capital | **(134,370)** | (13,770) |
| At the end of the year | **281,636** | 384,722 |

C. Investments designated at FVPL – investment funds:

| | **2020** | 2019 |
|---|---|---|
| Jadwa Investment Fund | **66,755** | 57,109 |

The movement of investments designated at FVPL was as follows:

| | **2020** | 2019 |
|---|---|---|
| At the beginning of the year | **57,109** | 270,838 |
| Changes in fair value of investments | **9,646** | 12,171 |
| Disposed during the year | **-** | (225,900) |
| At the end of the year | **66,755** | 57,109 |

During 2019, the Group sold investments designated at FVPL having carrying values of SR 225,900 for SR 248,919 and recorded a gain on disposals amounting to SR 23,019.

(In Saudi Riyals Thousands, unless otherwise indicated)

## 19. TRADE RECEIVABLES

| | **2020** | 2019 |
|---|---|---|
| Trade receivables | **209,614** | 143,318 |
| Less: allowance for expected credit losses | **(63,316)** | (46,331) |
| Trade receivables, net | **146,298** | 96,987 |

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

| | **2020** | 2019 |
|---|---|---|
| At the beginning of the year | **46,331** | 33,453 |
| Allowance for expected credit losses (note 10) | **23,144** | 12,878 |
| Reversal | **(6,159)** | - |
| At the end of the year | **63,316** | 46,331 |

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** | | | | | | |
| **2020** | **63,316** | **3,738** | **4,681** | **5,958** | **7,560** | **41,379** |
| 2019 | 46,331 | 2,367 | 3,043 | 2,146 | 6,393 | 32,382 |
| **Trade receivables** | | | | | | |
| **2020** | **209,614** | **75,140** | **29,710** | **20,461** | **26,952** | **57,351** |
| 2019 | 143,318 | 21,345 | 22,945 | 21,098 | 32,914 | 45,016 |

(In Saudi Riyals Thousands, unless otherwise indicated)

## 20. PREPAYMENTS AND OTHER RECEIVABLES

| | **2020** | 2019 |
|---|---|---|
| Advance payment to purchase a land | **50,000** | 50,000 |
| Advanced payments to suppliers | **47,146** | 21,221 |
| VAT receivables | **28,143** | 17,595 |
| Bank guarantees | **15,873** | 31,499 |
| Amount due from related parties | **13,080** | 220 |
| Accrued revenue | **10,979** | 3,517 |
| Prepaid expenses | **1,621** | 2,151 |
| Advances to employees | **361** | 1,115 |
| Others | **5,929** | 3,890 |
| | **173,132** | 131,208 |
| Less: impairment provision for prepayments and other receivables | **(69,465)** | (32,262) |
| | **103,667** | 98,946 |

| | | |
|---|---|---|
| Movement in impairment provision for prepayments and other receivables is as follows: | | |
| At the beginning of the year | **32,262** | 21,397 |
| Charge for the year | **38,370** | 10,865 |
| Written-off during the year | **(1,167)** | - |
| At the end of the year | **69,465** | 32,262 |

## 21. CASH AND CASH EQUIVALENTS

| | **2020** | 2019 |
|---|---|---|
| Cash at banks and on hand (note a) | **323,207** | 184,480 |
| Short-term deposit (note b) | **200,112** | - |
| | **523,319** | 184,480 |

a. The Company is required to maintain certain deposits/balances amounting to SR 58 million (2019: SR nil) with banks for advances received from customers against sale of development properties which are deposited into escrow accounts. These deposits/balances are not under lien.

b. Short-term deposit represents time deposit with a local bank with original maturities of less than three months and have an average rate of commission of 0.65% (2019: Nil) per annum.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at 31 December:

| | **2020** | 2019 |
|---|---|---|
| Cash at banks and on hand | **323,207** | 184,480 |
| Short-term deposit | **200,112** | - |
| Cash at bank and on hand attributable to discounted operations (note 22) | **1,436** | - |
| | **524,755** | 184,480 |

(In Saudi Riyals Thousands, unless otherwise indicated)

**22. ASSETS HELD FOR SALE**

On 2 September 2020, the board of directors decided to sell Company's 60% share in Alakaria Hanmi for Project Management (Hanmi). The sale of Hanmi is expected to be completed within a year from the reporting date.

As of 31 December, Alakaria Hanmi for Project Management were classified as disposal group held for sale and as discontinued operation

The result of Alakaria Hanmi for Project Management for the year is presented below:

| | **2020** | 2019 |
|---|---|---|
| Net Loss before zakat the year | **(4,643)** | (13,729) |
| Zakat | **(18)** | (190) |
| **Net loss for the year after zakat** | **(4,661)** | (13,919) |

The major classes of assets and liabilities of Alakaria Hanmi for Project Management classified as held for sale as at 31 December 2020 are as follow:

| | **2020** |
|---|---|
| **Assets** | |
| Property and equipment (note 14) | **858** |
| Trade receivables | **408** |
| Prepayments and other receivables | **1,126** |
| Cash and cash equivalents | **1,436** |
| Due to related parties | **2,017** |
| Assets held for sale | **5,845** |
| **Liabilities** | |
| Employees' defined benefit obligations (note 30) | **(872)** |
| Trade payables | **(3,669)** |
| Accruals and other liabilities | **(742)** |
| Zakat provision (note 36) | **(192)** |
| Due from related parties | **(6,865)** |
| Liabilities directly associated with assets held for sale | **(12,340)** |
| Net liabilities directly associated with disposal of the group | **(6,495)** |

**23. SHARE CAPITAL**

The Company's share capital amounting to SR 2,400 million as at 31 December 2020 is divided into 240 million shares (31 December 2019: 240 million shares) of SR 10 each.

**24. 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.

**25. 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.

(In Saudi Riyals Thousands, unless otherwise indicated)

## 26. OTHER RESERVES

| | 2020 | 2019 |
|---|---|---|
| Investments in equity instruments | **(7,353)** | (5,245) |
| Actuarial gains on employees' defined benefit obligations | **1,228** | 3,017 |
| | **(6,125)** | (2,228) |

## 27. NON-CONTROLLING INTERESTS

| | 2020 | 2019 |
|---|---|---|
| At the beginning of the year | **(2,491)** | 9,642 |
| Net loss for the year | **(18,352)** | (11,695) |
| Other comprehensive loss for the year | **(901)** | (438) |
| Net loss attributable to non-controlling interests | **(19,253)** | (12,133) |
| At the end of the year | **(21,744)** | (2,491) |

## 28. TERM LOANS

| | 2020 | 2019 |
|---|---|---|
| Current portion | **2,294,262** | 2,074,077 |
| Non-current portion | **516,687** | 645,411 |
| | **2,810,949** | 2,719,488 |

During 2016 the Group obtained Islamic long-term loan from a local bank amounting to SR 2.12 billion. The loan was subject to prevailing interest rates between the Saudi banks (SAIBOR) plus a profit margin and was repayable one time at the end of the agreement period in May 2019. The Group paid SR 50 million during 2019. During 2020 the Company has rescheduled the loan under which the loan is repayable in an instalment of SR 450 million due in May 2020 and remainder of the loan amounting to SR 1.6 billion will be repayable in equal annual instalments in five years after a grace period of two years. The first instalment will be due in November 2021. The loan facility is subject to financial covenants regarding debt to equity ratio, liquidity ratio and commission coverage for which the Group was not in compliance with as at 31 December 2020, in accordance with the disclosure requirements of IAS 1 Presentation of Financial Statements, an amount of SR 2.069 million (2019: SR 2.074 million) has been classified as current liability. The bank have agreed to deferred the repayment of SR 450 million to April 2021.

The long-term loan granted to the Group is secured by the Group's collateralized investment properties (note 15).

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 in June 2021 amounting to SR 130 million of the principle loan was classified as current portion. The long-term loan granted to the Group is secured by the Group's collateralized land.

During 2020, the Group acquired a short-term Islamic loan facility from a local bank amounting to SR 100 million out of which the Group have utilised SR 85 million as at 31 December 2020 (31 December 2019: nil). The loan is obtained to finance working capital and is subject to the prevailing interest rates between the Saudi banks (SAIBOR) plus a profit margin. The loan is repayable in equal semi-annual instalments. The Group has pledged to deposit at least 50% of the Group's revenue in their accounts with the lending bank.

As at 31 December 2020, an amount of SR 75 million (2019: SR 109 million) was capitalised as cost of borrowing for the construction of the project under constructions (note 15).

(In Saudi Riyals Thousands, unless otherwise indicated)

## 29. LOAN FROM A RELATED PARTY

| | **2020** | 2019 |
|---|---|---|
| Current portion | **-** | 1,012,647 |
| Non-current portion | **1,301,636** | - |
| | **1,301,636** | 1,012,647 |

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. In May 2020 the Company rescheduled the loan under which the new facility amounts to SR 1.3 billion reducing the original facility by SR 200 million. The loan is now payable in 16 unequal semi-annual instalments, first instalment will be due on 1 January 2022 and the last instalment is due in July 2029. The loan is subject to prevailing interest rates between the Saudi banks (SAIBOR) plus a profit margin.

The loan facility will be subject to financial covenants regarding debt to equity ratio, liquidity ratio and debt coverage ratio starting from the date of the first instalment.

Borrowing costs capitalised during the year ended 31 December 2020 for the construction of the project under constructions amounted to SR 27 million (2019: SR 36 million) (note 15). The Group management has fully utilized the loans proceeds for the Group's ongoing projects and 80% of the borrowing costs were eligible for capitalisation during the year ended 31 December 2020 (31 December 2019: 95%).

Last year the Group was not in compliance with the loan's covenants, therefore, amount of SR 1,012 million was classified as a current liability. The loan's covenant for the rescheduled loan will start on the first instalment due date i.e. 1 January 2022.

## 30. 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

**Principal actuarial assumptions:**

| | **Value per annum (%)** | |
|---|---|---|
| | **2020** | 2019 |
| Financial assumptions: | | |
| - Net discount rate | **1.80** | 3.20 |
| - Salary growth rate | **6.00** | 4.60 |
| Demographic assumptions: | | |
| - Retirement age | **60 years** | 60 years |
| - Mortality rates | WHO GHO Saudi Arabia life table | WHO GHO Saudi Arabia life table |

**Movement in present value of defined benefit obligation**

| | **2020** | 2019 |
|---|---|---|
| Opening balance - present value of defined benefit obligation | **22,629** | 18,426 |
| Current service cost | **6,792** | 7,724 |
| Interest cost | **311** | 560 |
| Benefits paid | **(6,159)** | (7,554) |
| Actuarial loss on obligation | **2,691** | 3,473 |
| Reclassified to liabilities directly associated with assets held for sale (note 22) | **(872)** | - |
| **Closing balance - present value of defined benefit obligation** | **25,392** | 22,629 |

(In Saudi Riyals Thousands, unless otherwise indicated)

## 31. RIGHT-OF-USE ASSETS AND LEASE LIBILITIES

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.

| | **2020** | 2019 |
|---|---|---|
| Balance at the beginning of the year | **74,529** | - |
| Recognised on adoption of IFRS 16 | **-** | 75,908 |
| Deprecation for the year | **(1,383)** | (1,379) |
| At the end of the year | **73,146** | 74,529 |

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

| | **2020** | 2019 |
|---|---|---|
| Balance at the beginning of the year | **75,834** | - |
| Recognised on adoption of IFRS 16 | **-** | 75,908 |
| Paid during the year | **(9,463)** | (4,540) |
| Accretion interest | **4,659** | 4,466 |
| At the end of the year (non-current) | **71,030** | 75,834 |

The following are the amounts recognised in profit or loss:

| | **2020** | 2019 |
|---|---|---|
| Deprecation expense of right-of-use assets | **1,383** | 1,379 |
| Interest expense on lease liabilities | **4,659** | 4,466 |
| | **6,042** | 5,845 |

## 32. TRADE PAYABLES

| | **2020** | 2019 |
|---|---|---|
| Payable to suppliers and contractors | **86,221** | 81,768 |
| Retentions payable to contractors | **6,043** | 6,278 |
| Other payables | **-** | 3,022 |
| | **92,264** | 91,068 |

(In Saudi Riyals Thousands, unless otherwise indicated)

**33. ACCRUALS AND OTHER LIABILITIES**

| | **2020** | 2019 |
|---|---|---|
| Advance from customers | **99,890** | 26,099 |
| Accrued expenses | **41,990** | 16,927 |
| Refundable deposits | **34,331** | 34,225 |
| Employees payable | **18,264** | 11,041 |
| Dividends payable | **7,647** | 7,647 |
| Management and restructuring fees for Alinma Alakaria Real Estate Fund (note12) | **5,187** | 24,268 |
| Amounts due to related parties | **5,052** | 5,916 |
| Professional fees | **4,550** | - |
| VAT payable | **1,478** | - |
| Provision for white idle lands charges | **-** | 21,654 |
| Penalties on past due instalments – long-term loan (PIF) | **-** | 17,643 |
| Others | **2,325** | 4,305 |
| | **220,714** | 169,725 |

**34. UNEARNED REVENUE**

| | **2020** | 2019 |
|---|---|---|
| Opening balance | **103,537** | 139,897 |
| Amounts received during the year | **246,174** | 227,209 |
| Rental revenue recognized during (note 7) | **(252,694)** | (263,569) |
| Rental unearned revenue | **97,017** | 103,537 |
| Infrastructure unearned revenue | **11,320** | - |
| | **108,337** | 103,537 |

**35. RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties represent major shareholders of the Group 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:

| | **2020** | 2019 |
|---|---|---|
| Executive salaries and allowances* | **17,542** | 16,937 |
| Attendance allowance and committees remuneration (note 9) | **11,408** | 10,447 |
| | **28,950** | 27,384 |

* 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 2020 amounted to SR 49.6 million (31 December 2019: SAR 52.5 million).
Transactions with related parties include a loan granted by the Public Investment Fund. The balance of the loan as at 31 December 2020 amounted to SR 1,302 million (31 December 2019: SR 1,013 million) (note 29).

Receivables and payables to other related parties are disclosed in note 20 and 33.

(In Saudi Riyals Thousands, unless otherwise indicated)

**36. ZAKAT**

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

| | **2020** | 2019 |
|---|---|---|
| Adjusted net (loss) income | **(28,073)** | 290,546 |
| Shareholders Equity, at the beginning of the year | **3,127,823** | 3,163,200 |
| Credit balances, provision and loans | **4,449,056** | 4,070,132 |
| Assets | **(6,740,918)** | (7,277,715) |
| | **807,888** | 246,163 |
| **Zakat base** | **807,888** | 290,546 |

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

| | **2020** | 2019 |
|---|---|---|
| At the beginning of the year | **37,837** | 40,610 |
| Charge for the year | **25,304** | 12,687 |
| Charge for the year relating to assets held for sale (note 22) | **18** | 190 |
| Paid during the year | **(6,359)** | (15,650) |
| Reclassified to liabilities directly associated with the assets held for sale (note 22) | **(192)** | - |
| At the end of the year | **56,608** | 37,837 |

**Status of Assessments**

The Group submitted its Zakat assessments for all years up to 2019 and paid the obligations accordingly. Zakat returns assessments from the GAZT was approved for all years until 2014.

## 37. 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 2020 amounted to SR 81 million (31 December 2019: SR 155 million).

*White idle lands claims*

During the year ended 31 December 2020 and 31 December 2019, white idle land fees that were received by the Group from the Ministry of Housing amounted to SR 170 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 2020 status of these appeals are as follows:

- Administrative court's final ruling in favor of the Group, cancelling fees amounting to SR 115 million;
- Administrative court's final ruling in favour Ministry of Housing amounting to SR 21 million and accordingly, a provision was recorded by the Group in 2019 and it was paid during 2020.
- Cases amounting to SR 34 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. In October 2020, the case was decided in favour of the Company.

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.

(In Saudi Riyals Thousands, unless otherwise indicated)

## 38. FAIR VALUE MEASUREMENT

Following table provides the fair value measurement hierarchy of the Group's financial assets and financial liabilities as at 31 December 2020 and 31 December 2019:

| | Carrying Amount | (level 1) | (level 2) | (level 3) | Fair value |
|---|---|---|---|---|---|
| **As at 31 December 2020:** | | | | | |
| **Financial assets measured at fair value:** | | | | | |
| Investments in equity instruments designated at FVOCI | **281,636** | **38** | **93,436** | **188,162** | **281,636** |
| Investments designated at FVPL | **66,755** | **-** | **66,755** | **-** | **66,755** |
| | **348,391** | **38** | **160,191** | **188,162** | **348,391** |
| 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 |

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.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities include loans, trade and accrued expenses 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

**39. 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.

The sensitivity analyses in the following sections relate to the position as at 31 December in 2020 and 2019.

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. The analyses exclude the impact of movements in market variables on: the carrying values of pension and other post-retirement obligations and provisions.

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 2020 and 2019.

*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. 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 3.3 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)

**39. 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:

| | **2020** | 2019 |
|---|---|---|
| Investments in equity instruments designated at FVOCI | **281,636** | 384,722 |
| Trade receivables | **146,298** | 96,987 |
| Prepayments and other receivables | **103,667** | 98,946 |
| Investments designated at FVPL | **66,755** | 57,109 |
| | **598,356** | 637,764 |

*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 2020, the current liabilities of the Group exceeded current assets by SR 1.993 million. Due to the reclassification of a long-term loans of SR 2.069 million to current liabilities which was required to be fully repaid to a local bank (note 28). During the year, the Company rescheduled the loan under which an amount of SR 450 million was payable in May 2020 to which the bank agreed to defer the repayment to April 2021. 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:

- Using the existing cash and bank balances available with the Group;
- Sale of investments in equity instruments designated at FVOCI and investments designated at FVPL; and
- Sale of investment properties under construction and lands.

(In Saudi Riyals Thousands, unless otherwise indicated)

**39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

*Liquidity risk – continued*

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 discounted 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 2020** | | | | |
| Trade payables (note 32) | **92,264** | **92,264** | **-** | **-** |
| Loans (note 28&29) | **4,112,585** | **2,294,262** | **1,818,323** | **-** |
| | **4,204,849** | **2,386,526** | **1,818,323** | **-** |
| 31 December 2019 | | | | |
| Trade payables (note 32) | 91,068 | 91,068 | - | - |
| Loans (note 28&29) | 3,732,135 | 3,086,724 | 645,411 | - |
| | 3,823,203 | 3,177,792 | 645,411 | - |

*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)

**40. 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.

| | **2020** | 2019 |
|---|---|---|
| Term loans | **4,112,585** | 3,732,135 |
| Trade payables | **92,264** | 91,068 |
| Accruals and other liabilities | **220,714** | 169,725 |
| Unearned revenue | **108,337** | 103,537 |
| Less: cash and cash equivalents | **(523,319)** | (184,480) |
| **Net debt** | **4,010,581** | 3,911,985 |
| Equity | **2,839,268** | 2,966,289 |
| **Capital and net debt** | **6,849,849** | 6,878,274 |
| Gearing ratio | **59%** | 57% |

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.

**41. SUBSEQUENT EVENT**

In addition to the disclosure in note (15-b), on 28 February 2021, the Company have purchased remainder 40% minority shares in Saudi Real Estate Construction Company, a subsidiary, for a consideration amounting to SR 4.3 million.

**42. SIGNIFCANT 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 financial statements. These developments may impact the Group's future financial results, cash flows and financial condition.

**43. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS**

These consolidated financial statements were approved and authorised to issue by the Board of Directors on 17 Shaba'an 1442H (corresponding to 30 March 2021).