

ATTA EDUCATIONAL COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Financial Statements
For the three-month period ended 31 October 2019
Together with the
Independent Auditor's Report
on Review of the Condensed Consolidated Interim
Financial Statements

ATTA EDUCATIONAL COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Financial Statements (Unaudited)
For the three-month period ended 31 October 2019

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Independent auditor's report on review of condensed consolidated interim financial statements

To the Shareholders of Ataa Educational Company

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements as of 31 October 2019 of Ataa Educational Company ("the Company") and its subsidiaries ("the Group") which comprises:

- the condensed consolidated statement of financial position as at 31 October 2019;
- the condensed consolidated statement of profit or loss for the three-month period ended 31 October 2019;
- the condensed consolidated statement of comprehensive income for the three-month period ended 31 October 2019;
- the condensed consolidated statement of changes in equity for the three-month period ended 31 October 2019;
- the condensed consolidated statement of cash flows for the three-month period ended 31 October 2019;
- and the notes to the condensed consolidated interim financial statements.

Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independent auditor's report on review of condensed consolidated interim financial statements

To the Shareholders of Ataa Educational Company (Continued)

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as of 31 October 2019 of Ataa Educational Company and its subsidiaries are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
License No: 371

Riyadh on: 12 Rabi Thani 1441H
Corresponding to: 9 December 2019

ATTA EDUCATIONAL COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Financial Position (Unaudited)
As at 31 October 2019
(Expressed in Saudi Riyals unless otherwise stated)

| | Note | 31 October 2019 (Unaudited) | 31 July 2019 Audited |
|---------------------------------------------------------------|------|--------------------------------|-------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property and equipment | 5 | 501,679,435 | 502,327,385 |
| Investment property | | 38,000,840 | 38,084,376 |
| Right-of-use assets | 4 | 226,651,460 | -- |
| Intangible assets | 6 | 377,871,333 | 376,399,169 |
| Total non-current assets | | <u>1,144,203,068</u> | <u>916,810,930</u> |
| Current assets | | | |
| Cash and cash equivalents | | 50,033,120 | 7,053,316 |
| Inventories | | 784,999 | 790,665 |
| Accounts receivable | | 64,525,073 | 55,670,914 |
| Prepayments and other receivables | | 21,980,868 | 41,553,519 |
| Total current assets | | <u>137,324,060</u> | <u>105,068,414</u> |
| Total assets | | <u>1,281,527,128</u> | <u>1,021,879,344</u> |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | | 400,000,000 | 400,000,000 |
| Share premium | | 209,594,000 | 209,594,000 |
| Statutory reserve | | 23,562,892 | 23,562,892 |
| Retained earnings | | 101,167,073 | 113,389,382 |
| Total equity | | <u>734,323,965</u> | <u>746,546,274</u> |
| Liabilities | | | |
| Non-current liabilities | | | |
| Non-current portion of lease liability on right-of-use assets | 4 | 219,358,455 | -- |
| Non-current portion of long-term loans | 7 | 67,984,029 | 83,528,820 |
| Deferred revenue of government grants | 8 | 2,284,419 | 2,412,598 |
| Employees' benefits | | 29,275,002 | 29,403,300 |
| Total non-current liabilities | | <u>318,901,905</u> | <u>115,344,718</u> |
| Current liabilities | | | |
| Current portion of long-term loans | 7 | 85,747,233 | 97,240,577 |
| Revenue received in advance | | 69,349,570 | 14,870,438 |
| Accounts payable | | 1,339,584 | 3,018,740 |
| Deferred revenue of government grants | 8 | 552,840 | 566,215 |
| Accrued expenses and other payables | | 39,644,012 | 36,625,651 |
| Zakat provision | | 2,091,989 | 1,673,699 |
| Current portion of lease liability on right-of-use assets | 4 | 27,532,587 | -- |
| Due to related parties | 11 | 2,043,443 | 5,993,032 |
| Total current liabilities | | <u>228,301,258</u> | <u>159,988,352</u> |
| Total liabilities | | <u>547,203,163</u> | <u>275,333,070</u> |
| Total liabilities and equity | | <u>1,281,527,128</u> | <u>1,021,879,344</u> |

The accompanying notes (1) through (14) form an integral part of these condensed consolidated interim financial statements.

ATAA EDUCATIONAL COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Profit or Loss (Unaudited)
For the three-month period ended 31 October 2019
(Expressed in Saudi Riyals unless otherwise stated)

| | Note | 31 October 2019 (Unaudited) | 31 October 2018 Audited |
|-----------------------------------------------------------------------------------------------------------------|------|--------------------------------------------|----------------------------------------|
| Revenue | | 81,110,124 | 77,522,543 |
| Cost of revenue | | <u>(55,584,696)</u> | <u>(54,626,457)</u> |
| Gross profit | | 25,525,428 | 22,896,086 |
| General and administrative expenses | | (4,071,873) | (3,659,566) |
| Impairment of accounts receivable | | (2,071,594) | (1,861,901) |
| Other income | | <u>3,574,593</u> | <u>2,900,470</u> |
| Operating profit | | 22,956,554 | 20,275,089 |
| Finance costs | | <u>(6,285,848)</u> | <u>(2,756,139)</u> |
| Net income for the period before Zakat | | 16,670,706 | 17,518,950 |
| Zakat | | <u>(418,290)</u> | <u>(400,000)</u> |
| Net income for the period | | <u>16,252,416</u> | <u>17,118,950</u> |
| Earning per share: | | | |
| Basic and diluted earnings per share as per income for the period attributable to the shareholders of the Group | 9 | <u>0.41</u> | <u>0.43</u> |

The accompanying notes (1) through (14) form an integral part of these condensed consolidated interim financial statements.

ATAA EDUCATIONAL COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Comprehensive Income (Unaudited)
For the three-month period ended 31 October 2019
(Expressed in Saudi Riyals unless otherwise stated)

| | 31 October 2019 <u>(Unaudited)</u> | 31 October 2018 <u>Audited</u> |
|--------------------------------------------------------------------------------------|---------------------------------------------------|-----------------------------------------------|
| Net income for the period | <u>16,252,416</u> | <u>17,118,950</u> |
| Other comprehensive income: | | |
| <u>Items that will not be reclassified subsequently to profit or loss</u> | | |
| Actuarial (losses) / gains from re-measurement of employees' end of service benefits | (604,950) | 832,500 |
| Total items that will not be reclassified subsequently to profit or loss | <u>(604,950)</u> | <u>832,500</u> |
| Other comprehensive (loss) / income for the period | <u>(604,950)</u> | <u>832,500</u> |
| Total comprehensive income for the period | <u><u>15,647,466</u></u> | <u><u>17,951,450</u></u> |

The accompanying notes (1) through (14) form an integral part of these condensed consolidated interim financial statements.

ATTA EDUCATIONAL COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Changes in Equity (Unaudited)
For the three-month period ended 31 October 2019
(Expressed in Saudi Riyals unless otherwise stated)

| | Share capital | Share premium | Statutory reserve | Retained earnings | Total equity |
|-------------------------------------------------------|----------------------|----------------------|--------------------------|--------------------------|---------------------|
| Balance at 1 August 2018 (Audited) | 400,000,000 | 209,594,000 | 15,288,380 | 100,130,919 | 725,013,299 |
| Net income for the period | -- | -- | -- | 17,118,950 | 17,118,950 |
| Other comprehensive income | -- | -- | -- | 832,500 | 832,500 |
| Total comprehensive income for the period | -- | -- | -- | 17,951,450 | 17,951,450 |
| Dividends | -- | -- | -- | (20,000,000) | (20,000,000) |
| Balance at 31 October 2018 (Audited) | 400,000,000 | 209,594,000 | 15,288,380 | 98,082,369 | 722,964,749 |
| Balance at 1 August 2019 (Audited) | 400,000,000 | 209,594,000 | 23,562,892 | 113,389,382 | 746,546,274 |
| Effect of change in accounting policy (Note 4) | -- | -- | -- | (27,869,775) | (27,869,775) |
| Restated balance as at 1 August 2019 | 400,000,000 | 209,594,000 | 23,562,892 | 85,519,607 | 718,676,499 |
| Net income for the period | -- | -- | -- | 16,252,416 | 16,252,416 |
| Other comprehensive losses | -- | -- | -- | (604,950) | (604,950) |
| Total comprehensive income for the period | -- | -- | -- | 15,647,466 | 15,647,466 |
| Balance at 31 October 2019 (Unaudited) | 400,000,000 | 209,594,000 | 23,562,892 | 101,167,073 | 734,323,965 |

The accompanying notes (1) through (14) form an integral part of these condensed consolidated interim financial statements.

ATTA EDUCATIONAL COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Cash Flows (Unaudited)
For the three-month period ended 31 October 2019
(Expressed in Saudi Riyals unless otherwise stated)

| | 31 October 2019 (Unaudited) | 31 October 2018 (Audited) |
|--------------------------------------------------------------|--------------------------------------------|------------------------------------------|
| Cash flows from operating activities | | |
| Net income for the period before Zakat | 16,670,706 | 17,518,950 |
| Adjustments for: | | |
| Depreciation and amortization | 4,351,101 | 4,097,796 |
| Depreciation - right-of-use assets | 5,566,949 | -- |
| Impairment of accounts receivable | 2,071,594 | 1,861,901 |
| Finance costs | 6,285,848 | 2,756,139 |
| Provision for employees' benefits | 1,084,350 | 1,230,500 |
| | <u>36,030,548</u> | <u>27,465,286</u> |
| Changes in operating assets and liabilities | | |
| Inventory | 5,666 | 166,695 |
| Accounts receivable | (10,925,753) | (10,873,971) |
| Prepayments and other receivables | 10,123,803 | (2,875,033) |
| Accounts payable | (1,679,156) | (275,151) |
| Revenue received in advance | 54,479,132 | 44,431,256 |
| Due to related parties | (3,949,589) | 3,838,132 |
| Accrued expenses and other payables | 377,019 | (2,731,527) |
| Cash generated from operating activities | <u>84,461,670</u> | <u>59,145,687</u> |
| Employees' benefits paid | (1,817,598) | (916,700) |
| Finance costs paid | (3,644,506) | (1,753,366) |
| Net cash generated from operating activities | <u>78,999,566</u> | <u>56,475,621</u> |
| Cash flows from investing activities | | |
| Additions to property and equipment and projects in progress | (5,091,779) | (9,956,248) |
| Net cash used in investing activities | <u>(5,091,779)</u> | <u>(9,956,248)</u> |
| Cash flows from financing activities | | |
| Proceeds from long-term finance | 166,716 | 289,020 |
| Repayment of long-term finance | (27,346,405) | (14,565,928) |
| Dividends paid | -- | (20,000,000) |
| Operating lease commitments paid | (3,748,294) | -- |
| Net cash used in financing activities | <u>(30,927,983)</u> | <u>(34,276,908)</u> |
| Net change in cash and cash equivalents | 42,979,804 | 12,242,465 |
| Cash and cash equivalents at beginning of the period | 7,053,316 | 10,171,019 |
| Cash and cash equivalents at the end of the period | <u>50,033,120</u> | <u>22,413,484</u> |

During the period, the following non-cash transactions arose:

| | | |
|--------------------------------------------------------------------------------------|-------------|------------|
| Transferred from projects in progress to property and equipment | 80,649,890 | 49,009,202 |
| Right-of-use assets against lease liabilities | 226,651,460 | -- |
| Transferred from projects in progress to intangible assets | 1,570,880 | -- |
| Actuarial (losses) / gains from re-measurement of employees' end of service benefits | (604,950) | 832,500 |

The accompanying notes (1) through (14) form an integral part of these condensed consolidated interim financial statements.

ATTA EDUCATIONAL COMPANY

(A Saudi Joint Stock Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three-month period ended 31 October 2019

(Expressed in Saudi Riyals unless otherwise stated)

1. REPORTING ENTITY

ATAA Educational Company (the "Company") is a Saudi Joint Stock Company, incorporated under the Regulations for Companies in the Kingdom of Saudi Arabia and was registered in Riyadh as a Saudi joint stock company under Commercial Registration number 1010186435 dated 10 Rabi' al-Awwal 1424H (corresponding to 11 May 2003), under the Ministerial Resolution No. (71/s) on 10 Rabi' al-Awwal 1431H (corresponding to 24 February 2010).

On 29 Thoul-Kidah 1440H (corresponding to 31 July 2019), the Company's shares were listed and started trading on Saudi Stock Exchange (Tadawul) under the code (4292).

The principal activities of the Company include the establishment of national and international schools, kindergarten, primary, middle and secondary schools for boys and girls in Riyadh region under licenses granted by the Ministry of Education. Further, the licensed activities of the Company under the Commercial Registration include establishment, management, operation and maintenance of computer training centers.

In accordance with the Company's By-Laws, the fiscal year of the Company shall commence at 1 August and ends at 31 July of each year.

The Company operates through its following branches:

| <u>Branch name</u> | <u>Commercial Registration Number</u> |
|--------------------------------------------------------------------------|---------------------------------------|
| Al-Rowad Schools (Izdihar branch) | 1010362199 |
| Al-Rowad Schools (Al Rawabi branch) | 1010275978 |
| Al-Rowad Schools (Al Mansoura branch) | 1010397500 |
| Middle East International School | 1010192541 |
| New Middle East International School | 1010250798 |
| Modern Middle East International School | 1010352008 |
| Al Sulaimania International Private School | 1010196919 |
| Al Fikr Private School | 1010192540 |
| Al-Rowad Private School, Al Rawda branch | 1010203258 |
| Al-Rowad School (Ishbilia branch) | 1010469726 |
| Ataa for Maintenance and Operation Company Branch | 1010452144 |
| Al-Rowad Private School for girls (Marine Housing Compound - Kharj Road) | 1010369368 |
| Rowad Eshbilia International School - Branch of Ataa Company | 1010186435 |

These consolidated financial statements include the financial statements of the Company, its branches and the following subsidiaries in which the Group directly or indirectly owns 100% of their share capital (collectively referred to as the "Group"):

| <u>Subsidiary</u> | <u>Country of incorporation</u> | <u>Legal form</u> | <u>Effective shareholding</u> | |
|-------------------------------------------------------|---------------------------------|-------------------|-------------------------------|---------------------------|
| | | | <u>As at 31 October 2019</u> | <u>As at 31 July 2019</u> |
| Al Nokhbah Educational Company | Kingdom of Saudi Arabia | Limited liability | 100% | 100% |
| Al Oruba International Company for Education Services | Kingdom of Saudi Arabia | Limited liability | 100% | 100% |
| Al-Rowad Company for Supporting Services | Kingdom of Saudi Arabia | Limited liability | 100% | 100% |

The Company's head office is located in Riyadh city and its official address is as follows:

P.O. Box 87527

Riyadh 11652

Kingdom of Saudi Arabia

ATTA EDUCATIONAL COMPANY

(A Saudi Joint Stock Company)

Notes To The Condensed Consolidated Interim Financial Statements (Unaudited)

For the three-month period ended 31 October 2019

(Expressed in Saudi Riyals unless otherwise stated)

2. BASIS OF PREPARATION

Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants ("SOCPA").

The unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's annual financial statements prepared in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants for the year ended 31 July 2019.

The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all periods presented, unless otherwise stated.

Basis of measurement

These condensed consolidated interim financial statements have been prepared on historical cost basis except for employees' benefits obligations that have been recognized at the present value of future obligations using the projected unit credit method, using the accrual basis of accounting and going concern.

Functional and presentation currency

These condensed consolidated financial statements are presented in Saudi Riyals, which is the functional currency of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

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

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

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value measurement of a non-financial assets takes into account a market participants' 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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the condensed consolidated interim financial statements are categorized 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 and liabilities can be obtained at the measurement date.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly observable (such as prices) or indirectly (derived from prices).

ATTA EDUCATIONAL COMPANY

(A Saudi Joint Stock Company)

Notes To The Condensed Consolidated Interim Financial Statements (Unaudited)

For the three-month period ended 31 October 2019

(Expressed in Saudi Riyals unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Fair value measurement - (continued)

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable (unobservable inputs).

For assets and liabilities that are recognized in the condensed consolidated interim financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group has determined the policies and procedures for both recurring fair value measurement, and for non-recurring measurement.

At each reporting date, the Group analyzes the changes in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the change in the fair value for each asset and liability with relevant external sources to determine whether the change is reasonable. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Seasonal changes

The results of operations for the three-month period do not necessarily reflect an accurate indicator of the actual results for the full year of operations as the Group's activities, revenue and expenses are influenced by several factors including enrolment and withdrawal of students during the year that leads to certain change in the Group's revenue from a quarter to another accordingly. In addition to the operational expenses that also vary from a period to another during the year due to seasonal and summer holidays. Those changes are reflected on the financial results of the Group's operations during the year. Therefore, the results of operations for this interim period could not be an accurate indicator of the actual results for the full year of operations.

4. CHANGES IN ACCOUNTING POLICIES

4.1 IFRS 16 'Leases'

- IFRS 16 'Leases' replaces the following standard and interpretations:
- IAS 17 'Leases'.
- IFRIC 4 'Determining whether an Arrangement contains a lease'.
- IFRIC 15 'Operating leases - incentives'.
- SIC 27 'Evaluating the substance of transactions involving the legal form of a lease'.

The standard determines the principles of recognition, measurement, presentation and disclosure of leases and requires lessees to recognize leases in accordance with an accounting framework in the consolidated statement of financial position.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for specific consideration. To assess whether a contract conveys the right to control the use of an identified asset.

ATTA EDUCATIONAL COMPANY

(A Saudi Joint Stock Company)

Notes To The Condensed Consolidated Interim Financial Statements (Unaudited)

For the three-month period ended 31 October 2019

(Expressed in Saudi Riyals unless otherwise stated)

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

As a lessee

At the commencement date, the Group shall assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group shall assess whether, throughout the period of use, the customer has both of the following:

- (a) the right to obtain substantially all of the economic benefits from use of the identified asset; and
- (b) the right to direct the use of the identified asset.

The Group shall recognize a right-of-use asset at the commencement date (i.e. the date on which the underlying asset is available for use) and a lease liability at the commencement date. The right-of-use asset is initially measured at cost less accumulated depreciation and impairment and is settled for any remusement of a lease liability.

The cost of right-of-use asset includes the initial amount of a lease liability adjusted by lease payments made on or before the commencement date, and any initial direct costs incurred and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, less any lease incentives received. The estimated useful life for right-of-use asset based on the lease term.

At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The Group shall discount lease payments using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be easily determined, the Group should use the incremental borrowing rate.

After the commencement date, a lessee shall measure the lease liability by:

- (a) increasing the carrying amount to reflect interest rate on the lease liability;
- (b) reducing the carrying amount to reflect the lease payments made; and
- (c) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments that are remeasured when there is a change in future lease payments arising from a change in index or a rate, or if there was a change in the Group's estimate of the amount expected to be payable by the lessee under residual value guarantees, or if the Group changed its assessment whether if it will choose the purchase, extension or termination.

Any remeasurment is settled in the lease liability against the carrying amount of right-of-use asset or charged to the condensed consolidated interim statement of income if the carrying amount of the related asset is Zero.

Short-term leases

The Group elected not to recognize right-of-use assets and lease liabilities for the short-term leases for which their terms are 12 months or less. The Group recognizes lease payments associated with those leases as expenses on a straight line basis over the lease term.

Extension options

In case of leases that provide extension options, the Group assesses whether it is reasonably certain, at commencement date, that the extension options will be exercised. The Group reassesses whether it is reasonably certain to exercise the options if there was a significant event or major change in the circumstances that fall under its control.

As a lessor

When the Group is a lessor, it determines, at the commencement of the lease, whether the lease is a finance lease or operating lease.

ATTA EDUCATIONAL COMPANY
(A Saudi Joint Stock Company)
Notes To The Condensed Consolidated Interim Financial Statements (Unaudited)
For the three-month period ended 31 October 2019
(Expressed in Saudi Riyals unless otherwise stated)

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

To classify each lease, the Group perform overall assessment whether lease transfers all substantially all the risks and rewards incidental to ownership of an underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers specific indicators such as whether the lease term is for the major part of the economic life of the underlying asset.

The initial measurement in case of finance leases: the lessor shall use the interest rate implicit in the lease to measure the net investment in the lease.

At the commencement date, the lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date:

- (a) fixed payments;
- (b) variable lease payments that depend on an index or a rate;
- (c) any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee; and
- (d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

Upon subsequent measurement, a lessor shall recognize finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.

The initial measurement in case of operating leases: A lessor shall recognize lease payments from operating leases as income on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

Upon subsequent measurement, a lessor shall apply IAS 36 to determine whether an underlying asset subject to an operating lease is impaired and to account for any impairment loss identified.

When the Group is an intermediate lessor, it calculates its interest in the head lease and sublease separately. Classification of the sublease is assessed by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset.

If the head lease is a short-term lease, the Group applies exemption, the sublease shall be classified as an operating lease.

If the arrangement includes lease and non-lease components, the Group shall allocate the consideration in the contract by applying IFRS 15 for allocation the consideration in the contract.

The Group recognizes lease payments received under operating leases as revenue on a straight-line basis over the lease term as part of "other income".

The accounting policies applicable to the Group as a lessor in the comparative period are not different from IFRS 16. However, when the Group is an intermediate lessor, subleases are classified by reference to the underling asset.

The Group adopted the application of IFRS 16 retrospectively by recognizing the accumulated effect for the initial application of the standard on 1 August 2019. Under this method, for leases that had been classified as operating leases, a lease liability is measured at present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. The resulting right-of-use asset is measured at the carrying amount of the right-of-use asset that represents the carrying amount of the lease liability at the date if initial application. A lease liability is settled adjusted by an amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position directly before the date of initial application.

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4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Any lease accruals or incentives relating to a previous operating lease against the right-of-use asset at the date of initial application. In addition, the Group also used practical expedients to apply a single discount rate to a portfolio of leases with similar characteristics and excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Previously, the Group had classified leases as operating leases or finance leases based on its assessment whether the lease substantively transfer all risk and rewards associated with ownership of the original asset to Group. The Group classified all leases as operating leases for the year ended 31 July 2019. As of 1 August 2019, the Group recognized the right-of-use assets and lease liabilities in the condensed consolidated interim statement of financial position in accordance with requirements of IFRS 16.

Impact on the condensed consolidated interim financial statements

On transition to IFRS 16, the Group recognized right-of-use assets and lease liabilities, along with settling the prepaid rent and recognizing the difference in retained earnings. The impact on transition is summarized below:

| | |
|-----------------------------------------------------------|---------------------|
| Right-of-use assets presented in the financial statements | 232,218,409 |
| Lease liabilities on right-of-use assets | (250,639,336) |
| Prepaid rent | (9,448,848) |
| Impact on retained earnings | <u>(27,869,775)</u> |
| | |
| Assets recognized during the period | 232,218,409 |
| Depreciation charge for the period | (5,566,949) |
| Balance at the end of the period | <u>226,651,460</u> |

Lease liabilities included in the condensed consolidated interim statement of financial position as at 31 October 2019:

| | |
|------------------------------------------|--------------------|
| Current | 27,532,587 |
| Non-current | 219,358,455 |
| Lease liabilities on right-of-use assets | <u>246,891,042</u> |

| | |
|-----------------------------------------------------------------------------------------------------|---------------------------------------------|
| <i>Amounts recognized in the condensed consolidated interim statement of profit or loss:</i> | For the period ended 31 October 2019 |
| Depreciation on right-of-use assets | <u>5,566,949</u> |
| Interest expense on lease liabilities | <u>2,646,795</u> |

Reconciliation of lease liabilities

At the date of initial application, a discount rate has been used at a rate ranging between 4.10% to 4.53%. The below table represents the lease reconciliation as at 1 August 2019:

| | |
|------------------------------------------------------|--------------------|
| Minimum lease payments as at 1 August 2019 | 250,639,336 |
| Paid during the period | (3,748,294) |
| Total lease liabilities as at 31 October 2019 | <u>246,891,042</u> |

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5. PROPERTY AND EQUIPMENT

| <u>Cost</u> | Lands | Buildings and constructions | Electrical tools & equipment | Motor vehicles | Furniture and fixtures | Projects in progress | Total |
|---------------------------------------------------------------|--------------|------------------------------------|-----------------------------------------|-----------------------|-------------------------------|-----------------------------|--------------|
| As at 1 August 2018 | 177,190,872 | 248,487,275 | 31,518,313 | 29,546,616 | 41,361,995 | 115,338,652 | 643,443,723 |
| Additions during the year | -- | 1,421,597 | 1,786,696 | -- | 2,720,181 | 16,536,502 | 22,464,976 |
| Transferred from projects in progress | -- | 48,612,669 | 536,533 | -- | -- | (49,149,202) | -- |
| Transferred to investment properties | (22,380,500) | (16,616,375) | -- | -- | -- | -- | (38,996,875) |
| Disposals during the year | -- | -- | (50,159) | -- | (10,777) | -- | (60,936) |
| As at 31 July 2019 | 154,810,372 | 281,905,166 | 33,791,383 | 29,546,616 | 44,071,399 | 82,725,952 | 626,850,888 |
| Additions during the period | -- | 617,757 | 427,686 | -- | 1,178,879 | 2,867,457 | 5,091,779 |
| Transferred from projects in progress | -- | 80,649,890 | -- | -- | -- | (80,649,890) | -- |
| Transferred to intangible assets | -- | -- | -- | -- | -- | (1,570,880) | (1,570,880) |
| As at 31 October 2019 | 154,810,372 | 363,172,813 | 34,219,069 | 29,546,616 | 45,250,278 | 3,372,639 | 630,371,787 |
| Accumulated depreciation | | | | | | | |
| As at 1 August 2018 | -- | 30,952,281 | 22,715,930 | 26,551,213 | 29,381,621 | -- | 109,601,045 |
| Charge for the year | -- | 6,886,191 | 3,857,341 | 670,238 | 4,482,123 | -- | 15,895,893 |
| Accumulated depreciation transferred to investment properties | -- | (912,499) | -- | -- | -- | -- | (912,499) |
| Accumulated depreciation of disposals | -- | -- | (50,159) | -- | (10,777) | -- | (60,936) |
| As at 31 July 2019 | -- | 36,925,973 | 26,523,112 | 27,221,451 | 33,852,967 | -- | 124,523,503 |
| Charge for the period | -- | 2,129,868 | 871,090 | 267,436 | 900,455 | -- | 4,168,849 |
| As at 31 October 2019 | -- | 39,055,841 | 27,394,202 | 27,488,887 | 34,753,422 | -- | 128,692,352 |
| Net book value | | | | | | | |
| As at 31 October 2019 | 154,810,372 | 324,116,972 | 6,824,867 | 2,057,729 | 10,496,856 | 3,372,639 | 501,679,435 |
| As at 31 July 2019 | 154,810,372 | 244,979,193 | 7,268,271 | 2,325,165 | 10,218,432 | 82,725,952 | 502,327,385 |

- As at 31 October 2019, projects in progress of SR 3.3 million (31 July 2019: SR 82.7 million) represent the project of building the educational complex in Ishbilia District.
- The Group has capitalized borrowing cost of SR Nil during the financial period ended 31 October 2019 and an amount of SR 3.7 million during the year ended 31 July 2019.

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6. INTANGIBLE ASSETS

| | <u>Goodwill</u> | <u>Computer software</u> | <u>Total</u> |
|-------------------------------|--------------------|--------------------------|--------------------|
| <u>Cost:</u> | | | |
| At 31 July 2019 | 376,399,169 | -- | 376,399,169 |
| At 31 October 2019 | <u>376,399,169</u> | <u>1,570,880</u> | <u>377,970,049</u> |
| <u>Amortization:</u> | | | |
| At 31 July 2019 | -- | -- | -- |
| Charged during the period | -- | 98,716 | 98,716 |
| At 31 October 2019 | <u>--</u> | <u>98,716</u> | <u>98,716</u> |
| <u>Net book value:</u> | | | |
| At 31 October 2019 | <u>376,399,169</u> | <u>1,472,164</u> | <u>377,871,333</u> |
| At 31 July 2019 | <u>376,399,169</u> | <u>--</u> | <u>376,399,169</u> |

7. LONG-TERM LOANS

Long-term loans are represented as follows:

Loan from Ministry of Finance

- 7.1 On 5 Jumada al-Ula 1436H (corresponding to 24 February 2015), the Group obtained long-term loan from the Ministry of Finance amounting to SR 19.03 million to finance contracting and construction works necessary to build an educational complex in Al-Mansoura District. This facility will be repaid in ten annual installments after the grace period which is estimated as four years from the signing date of the agreement. The last installment of the loan is payable on 10 June 2027. This agreement has been granted without a margin or commission.

Collaterals

These facilities are secured by mortgage of the land of staff accommodation villa located in Al Rawabi District of SR 1.33 million and the land located in Al Salam District of SR 20.099 million.

Movement in loan granted by the Ministry of Finance during the period/ year is as follows:

| | 31 October 2019 | 31 July 2019 |
|-----------------------------------------------|----------------------------|-------------------------|
| Balance at the beginning of the period / year | 17,134,200 | 19,038,000 |
| Repayments during the period / year | <u>(1,903,800)</u> | <u>(1,903,800)</u> |
| Balance at end of the period / year | <u>15,230,400</u> | <u>17,134,200</u> |

Movement in the present value of loan obtained from the Ministry of Finance is as follows:

| | | |
|----------------------------------------------------------|--------------------|--------------------|
| Total loan at end of the period / year | <u>15,230,400</u> | <u>17,134,200</u> |
| <u>Less: deferred finance charges</u> | | |
| Balance at the beginning of the period / year | (2,978,813) | (3,596,477) |
| Finance charges for the period / year | 141,554 | 617,664 |
| Balance at end of the period / year | <u>(2,837,259)</u> | <u>(2,978,813)</u> |
| Present value of loans at end of the period/ year | <u>12,393,141</u> | <u>14,155,387</u> |

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7. LONG-TERM LOANS

Movement in loans granted by local banks during the period is as follows:

- 7.2 On 2 Thoul Kaidah 1435H (corresponding to 28 August 2014), the Group entered into a long-term credit facilities agreement with a local bank with an aggregate amount of SR 80 million to finance 80% of the consideration amount for purchasing Al Oroba International School. The Group utilized SR 68.7 million. The facility is repaid in semi-annual installments after the grace period estimated as six-month from the signing date of the agreement entered into with the bank. The last installment of the loan was payable on 28 February 2019. This facility has been granted at a margin and commission on the facility that specified at SIBOR plus an agreed upon rate of 2.25%. Installments have been paid in full.

Collaterals

This facility is secured by a promissory note for the full value of the loan and joint amerceable bail and performance, in-kind guarantees represented in emancipation of title deeds for Al-Mansoura complex land and the administrative building land in Al Rawabi branch.

- 7.3 On 5 Jumada al-Ula 1436H (corresponding to 24 February 2015), the Group entered into a long-term credit facilities agreement with a local bank of an aggregate amount of SR 140 million to finance contracting and construction works necessary to build the educational complex in Ishbilia. This facility is repaid in semi-annual installments after the grace period estimated as two years from the signing date of the agreement with the bank. The loan's last installment is payable on 31 July 2023. This facility has been granted at a margin and commission specified at the revenue rate at SIBOR plus an agreed percentage of 2.75%.

Collaterals

These facilities are secured by a promissory note for the full value of the Group's available finance. in addition to keeping the mortgage of the land in Ishbilia (with the same financing bank).

- 7.4 On 17 Thoul-Hijjah 1436H (corresponding to 30 September 2015), the Group further signed additional long-term credit facilities agreement with a local bank dated 28 August 2014 of an aggregate total amount of SR 29.6 million to finance 80% of purchasing the administrative building on Uthman bin Affan Road in Izdihar District.

This facility is repaid on the same terms of the original agreement over 5 years and the last installment is payable on 30 September 2020. This facility has been granted at a margin and commission specified at the revenue rate at SIBOR plus an agreed upon rate of 2.25%.

Collaterals

These facilities are secured by a promissory note for the full value of the Group's available finance in addition to emancipate title deeds of the land and buildings erected thereon amounted to SR 37 million.

- 7.5 On 9 Sha'ban 1437H (corresponding to 16 May 2016), the Group entered into a short-term credit facilities agreement with a local bank for a total amount of SR 30 million to finance working capital support. The Group utilized SR 15 million of the loan and the repayment is after 6 months from the date of obtaining the facility. The last installment is payable on 24 November 2019. This facility has been granted at a margin and commission on the facility at SIBOR plus an agreed upon rate of 2.50%.

Collaterals

These facilities are secured by a promissory note for the full value of the Group's available finance amounting to SR 30 million.

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7. LONG-TERM LOANS (CONTINUED)

- 7.6 On 9 Jumada al-Akhirah 1438H (corresponding to 8 March 2017), the Group entered into a short-term credit facilities agreement with a local bank for a total amount of SR 20 million to finance working capital support. The Group utilized SR 20 million of the loan on 10 Shawwal 1440H (corresponding to 24 June 2019) and the repayment is after 6 months from the date of obtaining the facility. This facility has been granted at a margin and commission on the facility at SIBOR plus an agreed upon rate of 2.50%.
- 7.7 On 11 Thul-Qi'dah 1440H (corresponding to 14 July 2019), the Group entered into unsecured short-term credit facilities agreement with a local bank for a total amount of SR 15 million to finance working capital support. The Group utilized SR 15 million of the loan and the repayment is after 75 months from the date of obtaining the facility. This facility has been granted at a margin and commission on the facility at SIBOR plus an agreed upon rate of 3%.

Movement in loans from local banks is as follows:

| | 31 October 2019 | 31 July <u>2019</u> |
|-----------------------------------------------|----------------------------|------------------------|
| Balance at the beginning of the period / year | 166,614,010 | 188,152,905 |
| Proceeds received during the period/ year | 166,716 | 86,015,525 |
| Repayments during the period / year | <u>(25,442,605)</u> | <u>(107,554,420)</u> |
| Total loans from local banks | <u>141,338,121</u> | <u>166,614,010</u> |

Breakdown of loans were presented in the condensed consolidated interim statement of financial position as follows:

| | 31 October 2019 | 31 July <u>2019</u> |
|-----------------------------------------|----------------------------|------------------------|
| Current portion of long-term loans * | 85,747,233 | 97,240,577 |
| Non-current portion of long-term loans* | <u>67,984,029</u> | <u>83,528,820</u> |
| | <u>153,731,262</u> | <u>180,769,397</u> |

* Includes a loan from Ministry of Finance

8. DEFERRED REVENUE OF GOVERNMENT GRANTS

| | 31 October 2019 | 31 July <u>2019</u> |
|--------------------------------------------------------------|----------------------------|------------------------|
| Balance at beginning of the period /year | 2,978,813 | 3,596,477 |
| Movement during the period / year | <u>(141,554)</u> | <u>(617,664)</u> |
| | <u>2,837,259</u> | <u>2,978,813</u> |
| Current portion of deferred revenue of government grants | 552,840 | 566,215 |
| Non-current portion of deferred revenue of government grants | <u>2,284,419</u> | <u>2,412,598</u> |

9. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing income for the period attributable to the Group's ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is the same as basic earnings per share as the Group has no diluted instruments.

| | 31 October 2019 | 31 October <u>2018</u> |
|-----------------------------------|----------------------------|---------------------------|
| Income for the period | 16,252,416 | 17,118,950 |
| Weighted average number of shares | <u>40,000,000</u> | <u>40,000,000</u> |
| | <u>0.41</u> | <u>0.43</u> |

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10. FINANCIAL INSTRUMENTS

10.1 Financial assets

| | 31 October 2019 | 31 July 2019 |
|-------------------------------------------------|----------------------------|-------------------|
| Financial assets at amortized cost: | | |
| Accounts receivable | 64,525,073 | 55,670,914 |
| Cash and cash equivalents | 50,033,120 | 7,053,316 |
| Total financial assets at amortized cost | <u>114,558,193</u> | <u>62,724,230</u> |

10.2 Financial liabilities

| | 31 October 2019 | 31 July 2019 |
|------------------------------------------------------|----------------------------|--------------------|
| Financial liabilities at amortized cost: | | |
| Borrowings | 153,731,262 | 180,769,397 |
| Accounts payable | 1,339,584 | 3,018,740 |
| Total financial liabilities at amortized cost | <u>155,070,846</u> | <u>183,788,137</u> |
| Current portion of financial liabilities | 87,086,817 | 100,259,317 |
| Non-current portion of financial liabilities | 67,984,029 | 83,528,820 |
| Total financial liabilities | <u>155,070,846</u> | <u>183,788,137</u> |

Fair values of financial assets and financial liabilities measured at amortized cost are not significantly different from their carrying amounts.

11. RELATED PARTIES

The Group transacted with related parties in ordinary course of business. Following are the details of major transactions with related parties:

| | <u>Nature of related parties</u> | <u>Nature of transaction</u> | 31 October 2019 | 31 October 2018 |
|---------------------------------------|---------------------------------------------|-----------------------------------------|----------------------------|--------------------|
| Dr. Ahmed bin Nasser Elmet'eb | Shareholder and BOD member | Leases | 1,937,796 | 3,838,130 |
| Al Qasabi Contracting Company Limited | Shareholder of the Company | Contracting services | 1,602,921 | 4,991,021 |

The above transactions resulted in following balances:

| | 31 October 2019 | 31 July 2019 |
|-----------------------------------------|----------------------------|------------------|
| Dr. Ahmed bin Nasser Elmet'eb | 2,043,443 | 5,993,032 |
| Al Qasabi Contracting Company Limited * | <u>5,279,514</u> | <u>3,676,592</u> |

* The balance due to Al Qasabi Contracting Company Ltd. amounting to SR 5,279,514 was classified as follows:

SR 3,982,149 value of 5% for performance bond - under accruals and other payables.
 SR 1,526,594 value of accrued contracting works - under accruals and other payables.
 SR 229,229 as an advance payment – under prepayments and other receivables.

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11. RELATED PARTIES (CONTINUED)**Key management personnel compensations**

Key management consists of Board members and executive management. Reimbursements paid or payable to key management are listed below:

| | 31 October <u>2019</u> | 31 October <u>2018</u> |
|-------------------------------------------------|-----------------------------------|---------------------------|
| Salaries & compensations | 2,989,680 | 2,614,680 |
| End of service benefits and employees' benefits | <u>1,830,102</u> | <u>1,853,134</u> |
| | <u>4,819,782</u> | <u>4,467,814</u> |

12. SEGMENT REPORTING

The Group's revenue of SR 81.1 million is concentrated in education fees representing 100% of total revenue for the financial period ended 31 October 2019 (financial period ended 31 October 2018: SR 77.5 million). Accordingly, all the Group's assets and liabilities are intended for education sector.

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12. SEGMENT REPORTING- (CONTINUED)

Reconciliation of information on reportable segments to net income of the Group:

| | 31 October 2019 | 31 October 2018 |
|-------------------------------------|----------------------------|--------------------|
| Gross profit from reported segment | <u>25,525,428</u> | <u>22,896,086</u> |
| <u>Undistributed amount</u> | | |
| Other income | 3,574,593 | 2,900,470 |
| Impairment of accounts receivable | (2,071,594) | (1,861,901) |
| General and administrative expenses | (4,071,873) | (3,659,566) |
| Finance costs | (6,285,848) | (2,756,139) |
| Total unallocated amount | <u>(8,854,722)</u> | <u>(5,377,136)</u> |
| Profit before zakat | <u>16,670,706</u> | <u>17,518,950</u> |

13. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

| | 31 October 2019 | 31 July 2019 |
|--------------------------------------------|----------------------------|------------------|
| Uncovered letter of guarantee | 760,000 | 760,000 |
| Capital commitments - projects in progress | -- | 1,600,000 |
| | <u>760,000</u> | <u>2,360,000</u> |

14. APPROVAL OF THE FINANCIAL STATEMENTS

The condensed consolidated interim financial statements have been approved for issuance by the Audit Committee under the authorization of the Board of Directors on 8 Rabi' al-Thani 1441H (corresponding to 5 December 2019).