

**UNITED INTERNATIONAL TRANSPORTATION COMPANY
(A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

**UNITED INTERNATIONAL TRANSPORTATION COMPANY
(A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2019**

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of United International Transportation Company (A Saudi Joint Stock Company) - ("the Parent Company") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

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 professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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 below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Impairment loss on trade receivables</p> <p>The gross balance of trade receivables as at 31 December 2019 amounted to SR 192 million (2018: SR 220 million), against which an allowance for impairment of SR 40 million (2018: SR 35 million) was made. The collectability of trade receivables is a key element of the Group's working capital management, which is managed on an ongoing basis.</p> <p>Management determines and recognizes expected credit losses ('ECL') as required by International Financial Reporting Standard 9 (Financial Instruments) ('IFRS 9'). Significant judgements, estimates and assumptions have been made by the management in the calculation of ECL impact.</p> <p>Given the significance of the impact on the Group's trade receivables, the complexity and judgements related particularly to the calculation of expected credit losses we considered this area as a key audit matter.</p> <p>Refer to note 3.13 to the consolidated financial statements for the significant accounting policy, note 2.4 for the critical accounting estimates and judgements and note 18 which details the disclosure of impairment against trade receivables.</p>	<p>We evaluated the Group's processes and controls relating to the monitoring of trade receivables and review of credit risks of customers.</p> <p>We assessed the appropriateness of significant judgements, estimates and assumptions made by the management.</p> <p>We checked Information Technology General Controls (ITGCs) on the accounting system and found effective. We performed test of one for testing of accuracy of ageing of trade receivables generated by the system.</p> <p>We assessed methodologies implemented by the Group with reference to the calculation of ECL. Particularly, we assessed the Group's approach regarding assessment of the probability of default and incorporation of forward-looking information in the calculation of expected credit losses, as well as the changes in loss given default parameter.</p> <p>We also assessed the disclosures in the consolidated financial statements as required by IFRS 9 and IFRS 7 Financial Instruments: Disclosure.</p>
<p>Carrying value of vehicles</p> <p>Vehicles included under property and equipment as at 31 December 2019 amounting SR 1,097 million (2018: SR 1,112 million) representing 89% (2018: 92%) of total assets.</p> <p>Vehicles are carried at cost less depreciation and impairment after considering their residual values.</p>	<p>In addition to the verification of additions and disposals of rental vehicles and analytical review procedures of the depreciation charge for the year, we mainly performed the following audit procedures:</p>

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>The Group's management determines the residual values and estimated useful lives of vehicles for calculating depreciation. These estimates and judgements are made after considering the expected usage of the vehicles, expected physical wear and tear and expected future value at the time of disposal.</p> <p>The determination of residual values and useful lives of vehicles requires a significant degree of management estimation and judgement, and as such, this has been identified as a key audit matter.</p> <p>Refer to note 3.8 to the consolidated financial statements for the significant accounting policy, note 2.4 for the critical accounting estimates and judgements and note 13 which details the disclosure of property and equipment.</p>	<ul style="list-style-type: none"> • Evaluation of design, implementation and effectiveness of controls embedded in the procurement process and of controls over capitalization and depreciation calculation of vehicles on a sample basis; • Evaluation of design, implementation and effectiveness of controls embedded in the procurement process and of controls capitalization of vehicles on a sample basis; • Assessment of the reasonableness of judgement of residual value assigned to long-term and short-term rental purpose; • Assessment of the adequacy of useful lives assigned to long-term and short-term rental purpose; • Evaluation of utilization of the vehicles from the management reports. • Evaluation of the periodic re-assessment of residual value and useful lives by the Group's management.

Other information included in The Group's 2019 Annual Report

Other information consists of the information included in the Group's 2019 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The Group's 2019 annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Group's 2019 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY)

Report on the Audit of the Consolidated Financial Statements (continued)

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 SOCPA and the provisions of Companies' Law and the Parent Company's By-laws, and for such internal control as management determines is 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.

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.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY)

Report on the Audit of the Consolidated Financial Statements (continued)

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

- 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.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT

**TO THE SHAREHOLDERS OF UNITED INTERNATIONAL TRANSPORTATION COMPANY (A
SAUDI JOINT STOCK COMPANY)**

Report on the Audit of the Consolidated Financial Statements (continued)

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

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

Ahmed I. Reda
Certified Public Accountant
Licence No. 356

12 Jumada II 1441H
6 February 2020

Jeddah

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**UNITED INTERNATIONAL TRANSPORTATION COMPANY
(A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY**
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME**

For the year ended 31 December 2019

	Note	2019 SR'000	2018 SR'000
Revenue	6	1,043,494	1,040,970
Cost of revenue	7	(746,134)	(765,888)
GROSS PROFIT		297,360	275,082
Other operating income, net		1,548	3,812
Selling and marketing expenses	8	(42,946)	(40,658)
General and administrative expenses	9	(66,784)	(55,640)
OPERATING PROFIT		189,178	182,596
Finance costs, net	10	(4,921)	(7,543)
Share of results of associates	16	(114)	7
PROFIT BEFORE ZAKAT		184,143	175,060
Zakat	11	(5,524)	(5,074)
PROFIT FOR THE YEAR		178,619	169,986
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Re-measurement losses on defined benefit obligation	23	(2,842)	(7,228)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		175,777	162,758
EARNINGS PER SHARE (EPS)			
Basic and diluted, profit for the year attributable to ordinary equity holders of the Parent (in Saudi Riyals)	12	2.51	2.39

 Chairman	 President and Group CEO	 Group Chief Financial Officer
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The attached notes from 1 to 35 form an integral part of these consolidated financial statements.

**UNITED INTERNATIONAL TRANSPORTATION COMPANY
(A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY**
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	<i>Note</i>	2019 SR'000	2018 SR'000
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	13	1,227,012	1,207,898
Right-of-use assets	14	33,930	-
Intangible assets	15	464	692
Investments in associates	16	1,219	1,333
		<u>1,262,625</u>	<u>1,209,923</u>
CURRENT ASSETS			
Inventories	17	15,593	2,059
Trade receivables	18	151,504	184,997
Prepayments and other receivables	19	18,431	25,103
Cash and cash equivalents	20	4,655	14,302
		<u>190,183</u>	<u>226,461</u>
TOTAL ASSETS		<u>1,452,808</u>	<u>1,436,384</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	21(a)	711,667	711,667
Statutory reserve	21(b)	182,193	164,331
Retained earnings		265,939	250,357
TOTAL EQUITY		<u>1,159,799</u>	<u>1,126,355</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Bank borrowings	22	3,333	15,851
Employee benefits	23	50,412	43,537
Lease liabilities	14	24,044	-
		<u>77,789</u>	<u>59,388</u>
CURRENT LIABILITIES			
Current portion of bank borrowings	22	57,006	89,610
Lease liabilities – current portion	14	5,213	-
Trade payables	24	82,330	117,985
Accrued expenses and other liabilities	25	63,732	36,583
Zakat payable	11	6,939	6,463
		<u>215,220</u>	<u>250,641</u>
TOTAL LIABILITIES		<u>293,009</u>	<u>310,029</u>
TOTAL EQUITY AND LIABILITIES		<u>1,452,808</u>	<u>1,436,384</u>


Chairman


President and Group CEO

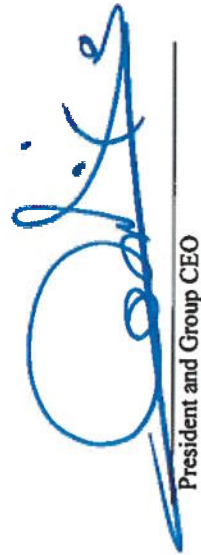

Group Chief Financial Officer

The attached notes from 1 to 35 form an integral part of these consolidated financial statements.

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	Share capital SR'000	Statutory reserve SR'000	Retained earnings SR'000	Total equity SR'000
Balance as at 1 January 2018	711,667	147,332	211,348	1,070,347
Profit for the year	-	-	169,986	169,986
Other comprehensive loss for the year	-	-	(7,228)	(7,228)
Total comprehensive income for the year	-	-	162,758	162,758
Dividends (note 21 (a))	-	-	(106,750)	(106,750)
Transfer to statutory reserve (note 21 (b))	-	16,999	(16,999)	-
Balance as at 31 December 2018	711,667	164,331	250,357	1,126,355
Profit for the year	-	-	178,619	178,619
Other comprehensive loss for the year	-	-	(2,842)	(2,842)
Total comprehensive income for the year	-	-	175,777	175,777
Dividends (note 21 (a))	-	-	(142,333)	(142,333)
Transfer to statutory reserve (note 21 (b))	-	17,862	(17,862)	-
Balance as at 31 December 2019	711,667	182,193	265,939	1,159,799


Chairman


President and Group CEO


Group Chief Financial Officer

**UNITED INTERNATIONAL TRANSPORTATION COMPANY
(A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY**
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

	Note	2019 SR'000	2018 SR'000
OPERATING ACTIVITIES			
Profit before zakat		184,143	175,060
Adjustments to reconcile profit before zakat to net cash flows:			
Depreciation of property and equipment	13	455,172	453,600
Depreciation of right-of-use assets	14	5,248	-
Amortisation of intangible assets	15	283	279
Share of results of associates	16	114	(7)
Loss on disposal of other fixed assets	7	5,091	-
Loss on disposal of intangible assets	7	104	-
Loss on derecognition of right-of-use assets	14	(1,410)	-
Provision for employee benefits	23	6,560	5,072
Provision for doubtful receivables	18	9,595	5,397
Finance costs	10	4,921	7,543
		669,821	646,944
Working capital adjustments:			
Inventories		91,144	140,109
Trade receivables		23,898	(20,122)
Prepayments and other receivables		4,882	(2,355)
Trade payables		(35,655)	11,639
Accrued expenses and other liabilities		27,149	7,121
		781,239	783,336
Cash from operations		781,239	783,336
Purchase of vehicles	13	(538,297)	(502,774)
Zakat paid	11	(5,048)	(9,048)
Finance costs paid	10	(4,921)	(7,543)
Employee benefits paid	23	(2,527)	(4,537)
		230,446	259,434
Net cash flows from operating activities			
INVESTING ACTIVITIES			
Purchase of other property and equipment	13	(45,758)	(4,422)
Additions to intangible assets	15	(159)	(612)
		(45,917)	(5,034)
Net cash flows used in investing activities			
FINANCING ACTIVITIES			
Proceeds from bank borrowings		91,000	120,000
Repayment of bank borrowings		(136,122)	(263,092)
Dividends paid	21	(142,333)	(106,750)
Payment of principal portion of lease liabilities	14	(6,721)	-
		(194,176)	(249,842)
Net cash flows used in financing activities			
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(9,647)	4,558
Cash and cash equivalents at the beginning of the year		14,302	9,744
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		4,655	14,302

The attached notes from 1 to 35 form an integral part of these consolidated financial statements.

UNITED INTERNATIONAL TRANSPORTATION COMPANY
(A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
For the year ended 31 December 2019

Supplemental non-cash information

Transfer of vehicles from property and equipment to inventories	13	<u>104,678</u>	<u>134,785</u>
Right-of-use assets and lease liabilities	14	<u>42,628</u>	<u>-</u>
Prepayments transferred to right-of-use assets	4.1	<u>1,790</u>	<u>-</u>

 Chairman	 President and Group CEO	 Group Chief Financial Officer
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The attached notes from 1 to 35 form an integral part of these consolidated financial statements.

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

1 CORPORATE INFORMATION

United International Transportation Company ("the Parent Company"), is a Saudi Joint Stock Company registered in Jeddah, Kingdom of Saudi Arabia ("KSA") under Commercial Registration No. 4030017038 dated 7 Shabaan 1428H (corresponding to 20 August 2007), with branches as detailed in note 33.

The principal activities of the Parent Company are leasing and rental of vehicles under the commercial name of "Budget Rent a Car" as per the license No. 0202000400 issued by the Ministry of Transportation in the Kingdom of Saudi Arabia. The Parent Company was listed on Saudi Stock Exchange on 1 September 2007.

The Parent Company's registered office is located at the following address:

6695 King Abdul Aziz Road, Al Basatin Dist.
Unit No. 92
Jeddah 23719-4327,
Kingdom of Saudi Arabia.

As at the reporting date, the Parent Company owns 100% of the issued capital of Aljozoor Alrasekha Trucking Company Limited - A Single Owner Company (the "subsidiary" or "Rahaal" and collectively with the Parent Company referred to as the "Group"). Rahaal is a limited liability company incorporated in Saudi Arabia and engaged in the business of leasing and rental of heavy vehicles and equipment and trading in heavy vehicles and equipment and spare parts as per commercial registration.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to "IFRSs endorsed in KSA").

2.2 Basis of measurement

The consolidated financial statements are prepared under the historical cost convention using the accruals basis of accounting and going concern concept, except for employees benefit liabilities where actuarial present value calculations are used.

2.3 Functional and presentation currency

The consolidated financial statements are presented in Saudi Arabian Riyals (SR), which is the functional currency of the Group. All financial information presented in SR has been rounded off to the nearest thousand, unless otherwise indicated.

2.4 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, 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 assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Financial instruments risk management (note 29)
- Capital management (note 30)

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Going concern

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting judgements, estimates and assumptions (continued)

Judgements (continued)

Lease classification – Group as lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. Keeping in view the business model of the Group, the Group has determined that leasing of vehicles does not transfer substantially all the risks and rewards incidental to ownership of the vehicles subject to the lease arrangement, hence such lease arrangements are classified as operating lease.

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Estimates and assumptions

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 that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur. Information about the assumptions and estimation uncertainties is included in the following areas:

Useful lives and residual value of property and equipment

The Group's management determines the estimated useful lives of its property and equipment for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges would be adjusted where the management believes the useful lives differ from previous estimates.

Allowance for inventory losses

The Group recognizes an allowance for inventory losses due to factors such as obsolescence, technical faults, physical damage etc. The estimation of such losses includes the consideration of factors including but not limited to introduction of new models or technology by the specific manufacturer and both existing and emerging market conditions.

Provision for expected credit losses (ECL) of trade receivables

The Group has selected simplified approach for all lease trade receivables. The Group uses a provision matrix to calculate ECL for trade receivables. The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECL on the Group's trade receivables is disclosed in note 29.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested.

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting judgements, estimates and assumptions (continued)

Estimates and assumptions (continued)

Impairment of non-financial assets (continued)

The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Defined benefit plan

The cost of the defined benefit plan and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and employee turnover rate. Due to the complexities involved in the valuation 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.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the market yield on high quality Corporate/Government bonds. The mortality rate is based on publicly available mortality tables for the country. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases are based on expected future inflation rates for the country. Further details about employee benefits obligations are provided in note 23.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently re-measured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

Provisions

Provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently, except for new standard adopted during the year as disclosed in note 4, in the preparation of these consolidated financial statements.

3.1 Basis of consolidation

The Group's consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary as at 31 December 2019. Control is achieved 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
- The ability to use its power over the investee to affect its returns

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 with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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.

Profit or loss and each component of Other Comprehensive Income ("OCI") are attributed to the equity holders of the Parent Company 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 into 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 the consolidated statement of profit or loss. Any investment retained is recognised at fair value.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss.

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Basis of consolidation (continued)

Business combinations and goodwill (continued)

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence is similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates are 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. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately. The statement of profit or loss 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 consolidated 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 aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of profit or loss outside operating profit and represents profit or loss after income tax. The financial statements of the associates 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 of the associate and its carrying value, and then recognises the loss as 'Share of results of an associate' in the consolidated statement of profit or loss. 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 profit or loss.

When the Group's share of losses exceeds its interest in associates, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has a corresponding obligation.

3.2 Foreign currencies

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 a foreign operation, the gain or loss that is reclassified to consolidated statement of profit or loss reflects the amount that arises from using this method.

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Foreign currencies (continued)

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised as profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised as OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss in the consolidated statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates 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 items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Saudi Riyals at exchange rates at the reporting date. Dividends received from foreign associates are translated at the exchange rate in effect at the transaction date and related currency translation differences are realized in the consolidated statement of other comprehensive income.

When a foreign operation is disposed of, the relevant amount in the translation reserve is transferred to the consolidated statement of profit or loss as part of the profit or loss on disposal. On the partial disposal (without loss of control) of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in the foreign exchange translation reserve via other comprehensive income.

3.3 Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification.

Assets

An asset is current when:

- It is expected to be realised or intended to be sold or consumed in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is expected to be realised within twelve months after the reporting period; or
- It is 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.

Liabilities

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- 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.

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Revenue from contracts with customers

Sale of inventories (vehicles)

Revenue from sale of vehicles is recognised at the point in time when control of the vehicles is transferred to the customers, generally on delivery of the vehicles. The normal credit term is up to 30 days upon delivery. The Group's revenue from sale of vehicles include only one performance obligation and there is no variable consideration and financing component involved.

Income from other services

Revenue from other services that are incidental to vehicle rental arrangements are recognized when these related services are provided and classified as part of revenue from these core operating activities. The Group's revenue from other services that are incidental to vehicle rental arrangements is recognised over the time when services are rendered.

3.5 Expenses

Cost of revenue

Cost of revenue represents all expenses directly attributable or incidental to the core operating activities of the Group including but not limited to: depreciation of vehicles under rental arrangements, cost of vehicle inventories disposed of, directly attributable employee related costs etc.

Selling, marketing and administrative expenses

Selling and marketing expenses are costs arising from the Group's efforts underlying marketing activities and function. All other expenses are classified as administrative expenses. Allocation of common expenses between cost of revenue, selling and marketing and administrative expenses, where required, is made on a reasonable basis with regards to the nature and circumstances of the common expenses.

Franchise fee

Franchise and similar fee that the Group is obligated to pay under contractual arrangements are recognized on accrual basis.

3.6 Borrowing 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 finance cost and other costs that an entity incurs in connection with the borrowing of funds.

3.7 Zakat

The Group is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Provision for zakat for the Group and zakat related to the Group's ownership in the Saudi Arabian subsidiary is charged to the consolidated statement of profit or loss.

The Group companies withhold taxes on transactions with non-resident parties and on dividends paid to foreign shareholders in accordance with GAZT regulations, which is not recognized as an expense being the obligation of the counter party on whose behalf the amounts are withheld.

3.8 Property and equipment

Recognition and measurement

Items of property and equipment are initially recorded at cost and measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Property and equipment (continued)

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment (other than vehicles transferred to inventories as 'Vehicles for sale') are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognised net within other operating income in the consolidated statement of profit or loss.

Subsequent costs

The cost of replacing a part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in the consolidated statement of profit or loss as incurred.

Capital work in progress

Capital work-in-progress represents all costs relating directly and indirectly to the construction in progress and is capitalized as property and equipment when ready for the intended use.

Depreciation

Depreciation represents the systematic allocation of the depreciable amount of an asset over its estimated useful life. Depreciable amount represents cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted prospectively if required. For discussion on impairment assessment of property and equipment, please refer note 3.13.

The estimated useful lives are as follows:

• Buildings and other installations	10 to 20 years
• Vehicles	2 to 5 years
• Furniture, fixtures and office equipment	4 to 5 years
• Machinery and equipment	4 to 7 years

3.9 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 profit or loss 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 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 profit or loss in the expense category that is consistent with the function of the intangible assets.

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Intangible assets (continued)

The amortization period for the Group's intangible assets with finite life is as follows:

Software	4 years
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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 profit or loss when the asset is derecognised.

3.10 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

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 remeasurement 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. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Leasehold building 2 to 10 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment, refer note 3.14.

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 the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because 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 remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option 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 equipment (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 office equipment that are considered to be low value. 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.

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Leases (continued)

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3.11 Inventories

Inventories represent vehicles for sale, spare parts and other supplies. These are measured at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. The carrying amount of inventories is recognized as cost of revenue when the inventories are sold. The Group recognizes an allowance for inventory losses due to factors such as obsolescence, technical faults, physical damage etc.

Vehicles for sale

Vehicles for sale that were previously held as part of property and equipment for lease and rental arrangements are transferred to inventories at their carrying amount when they cease to be held for lease and rental purposes and become held for sale in the ordinary course of business. Other costs are included in the cost of vehicle inventories only to the extent that they are incurred in bringing the vehicles to their present location and condition necessary to make the sale.

Spare parts and supplies

The cost of spare parts and supplies is based on weighted average principle. Other costs are included in the cost of spare parts and supplies only to the extent they are incurred in bringing them to their present location and condition.

3.12 Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and cash on hand. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances and cash.

3.13 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

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Financial instruments (continued)

i) Financial assets (continued)

Initial recognition and measurement (continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in consolidated statement of profit or loss when the asset is derecognised, modified or impaired. This category is relevant to the Group. The Group's financial assets at amortised cost includes trade receivables, loans to employees and due from related parties included under other non-current financial assets.

Financial assets at fair value through OCI (debt instruments)

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Currently, the Group's does not have any debt instruments at fair value through OCI.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the consolidated statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Currently, the Group's does not have any equity investments designated at fair value through OCI.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss.

Currently, the Group does not have any financial assets designated at fair value through profit or loss.

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Financial instruments (continued)

i) Financial assets (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment

The Group recognises an allowance for expected credit losses (ECL) for all debt instruments not held at fair value through profit or loss. For trade receivables and contract assets, the Group applies a simplified approach in calculating ECL. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, borrowings, or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss; and
- Financial liabilities at amortised cost (lease liabilities and borrowing).

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by International Financial Reporting Standard 9 (Financial Instruments) ('IFRS 9'). Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss.

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Financial instruments (continued)

ii) Financial liabilities (continued)

Financial liabilities at fair value through profit or loss (continued)

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortised cost (lease liabilities and borrowing)

This category is relevant to the Group. After initial recognition, lease liabilities and interest-bearing loans and borrowing are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses as a result of unwinding of interest cost through EIR amortization process and on de-recognition of financial liabilities are recognized in the consolidated statement of profit or loss.

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. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss. This category generally applies to lease liabilities and borrowings (refer to note 13).

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. 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 derecognition 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 profit or loss.

iii) 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.

3.14 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the consolidated statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Intangible assets, excluding goodwill, with indefinite useful lives are tested for impairment annually as at 31 December at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 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. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss and other comprehensive income net of any reimbursement.

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

3.16 Cash dividend and non-cash distribution to equity holders of the parent

The Parent Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Parent Company. As per the bye laws of the Parent Company, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the consolidated statement of profit or loss.

4 CHANGES TO THE GROUP'S ACCOUNTING POLICIES

New and amended standards and interpretations

4.1 IFRS 16 Leases

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

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

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application, if any. As a result, comparatives of the year ended 31 December 2018 are not restated. The Group elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Effect of adoption of IFRS 16

The effect of adoption of IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	<i>1 January 2019 SR'000</i>
Assets	
Right-of-use assets	26,712
Prepayments	(1,790)
Total assets	24,922
Liabilities	
Lease liabilities	24,922
Total adjustments on equity	-

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

4 CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Effect of adoption of IFRS 16 (continued)

The Group has lease contracts for various offices and locations. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as an operating lease. In an operating lease, the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments and Trade and other payables, respectively.

Upon adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The weighted average incremental borrowing rate applied to the lease liabilities as at 1 January 2019 was 4.2%.

The Group has used the practical expedient of applying IFRS 16 to only those contracts that were previously identified as leases under IAS 17 and IFRIC 4. In adopting IFRS 16, the Group has applied the following practical expedients:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases in accordance with IAS 17 as short-term leases with a remaining lease term of less than 12 months as at 1 January 2019;
- exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- the election, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	<i>1 January 2019</i> <i>SR'000</i>
Operating lease commitments as at 31 December 2018	3,486
Weighted average incremental borrowing rate as at 1 January 2019	4.2%
Discounted operating lease commitments as at 1 January 2019	3,352
Less: Commitments relating to short term leases	3,352
Add: Lease liabilities relating to renewal periods not included in operating lease commitments as at 31 December 2018	24,922
Lease liabilities as at 1 January 2019	24,922

4.2 IFRIC Interpretation 23: *Uncertainty over Income Tax Treatment*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Group's tax filings include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for sister concerns) will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

4 CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

4.3 Amendments to IFRS 9: *Prepayment Features with Negative Compensation*

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

4.4 Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the year.

4.5 Annual Improvements 2015-2017 Cycle

(a) IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events. An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

(b) IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

5.1 IFRS 17 *Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

5 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

5.1 IFRS 17 Insurance Contracts (continued)

The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

5.2 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.

Companies are required to apply the amended definition of a business to acquisitions that occur on or after 1 January 2020. 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.

5.3 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 are effective for annual reporting periods beginning on or after 1 January 2020, with early application permitted. The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

5.4 Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (RFR).

The amendments apply to annual periods beginning on or after 1 January 2020 and must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. Early application is permitted and must be disclosed. The amendments are not expected to have a significant impact on the Group's consolidated financial statements.

6 REVENUE

	2019 SR'000	2018 SR'000
Vehicle rental and lease arrangements	782,867	777,671
Revenue from contracts with customers (see note (a) below)	260,627	263,299
	<u>1,043,494</u>	<u>1,040,970</u>

a) Revenue from contracts with customers represents sale of vehicles.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

7 COST OF REVENUE

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
Depreciation on property and equipment (note 13(d))	454,081	452,521
Depreciation on right-of-use assets (note 14(a))	5,248	-
Cost of sale of vehicles	91,103	138,819
Operational costs	39,917	35,944
Repairs and maintenance	48,000	43,392
Insurance	23,125	25,226
Employees' related expenses	35,964	29,939
Expense relating to short-term leases	20,381	21,401
Incentives, commission and franchise fee	11,229	10,873
Communication expense	4,839	2,283
Disposal of other fixed assets	5,091	-
Amortization of intangible asset (note 15)	283	279
Disposal of intangible assets	104	-
Other	6,769	5,211
	746,134	765,888

8 SELLING AND MARKETING EXPENSES

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
Employees' related expenses	33,483	33,432
Advertisement costs	4,746	5,995
Other	4,717	1,231
	42,946	40,658

9 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
Employees' related expenses	34,441	27,040
Expense relating to short-term leases	2,872	4,529
Subscriptions	5,847	5,980
Allowance for doubtful debts (note 18)	9,595	5,757
Board of directors' remuneration (note 26)	2,543	4,093
Depreciation and amortization (note 13(d))	1,091	1,079
Repairs and maintenance	1,260	1,208
Communication	1,210	572
Legal and professional charges	4,029	1,981
Other	3,896	3,401
	66,784	55,640

10 FINANCE COST

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
Finance cost on Murabaha & Al Tawarroq	3,293	7,328
Finance cost on lease liabilities	1,509	-
Bank charges and others	119	215
	4,921	7,543

UNITED INTERNATIONAL TRANSPORTATION COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

11 ZAKAT

a) Charge for the year

The Group's zakat charge is based on the Consolidated Financial Statement of the Parent Company.

The consolidated zakat charge for the year consists of:

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
Charge for the year	5,524	5,074
Zakat charge is based on the following:		
	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
Equity	984,021	963,597
Provisions and other adjustments	184,219	260,172
Book value of long-term assets (net of related financing)	(1,244,289)	(1,207,159)
	(76,049)	16,610
Adjusted income for the year	220,960	186,364
Zakat base	144,911	202,974

The differences between the financial and the zakatable results are mainly due to certain adjustments in accordance with the relevant fiscal regulations.

Movement in provision during the year

The movement in the zakat provision for the year is as follows:

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
At the beginning of the year	6,463	10,437
Provided during the year	5,524	5,074
Paid during the year	(5,048)	(9,048)
At the end of the year	6,939	6,463

a) Status of assessments

The Parent Company

The Parent Company has filed the zakat return for all years up to the financial year ended 31 December 2018. All assessment proceedings of the General Authority of Zakat and Tax ("GAZT") up to the end of the financial year ended 31 December 2012 have been agreed with GAZT. Assessment proceeding returns of zakat filed for the years from 2013 to 2016 have been initiated by GAZT. The assessments for the financial years 2017 through 2018 have not yet been raised by GAZT.

Subsidiary- Aljozor Alrasekha Trucking Company Limited

The subsidiary has filed the zakat returns up to the financial year ended 31 December 2018. Assessment proceeding returns of zakat filed for the period from 12 May 2012 to 31 December 2012 and the financial years 2013 to 2016 have been initiated by GAZT. The assessments for the financial years 2017 through 2018 have not yet been raised by GAZT.

UNITED INTERNATIONAL TRANSPORTATION COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

12 EARNINGS PER SHARE (EPS)

Basic earnings per share is calculated by dividing the profit 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 calculation of diluted earnings per share is not applicable to the Group. Also, no separate earning per share calculation from continuing operations has been presented since there were no discontinued operations during the year.

The EPS calculation is given below:

	2019	2018
Profit attributable to ordinary equity holders of the parent (<i>SR '000</i>)	178,619	169,986
Weighted average number of ordinary shares for basic and diluted EPS	71,167	71,167
Earnings per share (in Saudi Riyals)	2.51	2.39

UNITED INTERNATIONAL TRANSPORTATION COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

13 PROPERTY AND EQUIPMENT

	<i>Land SR'000</i>	<i>Buildings and other installation SR'000</i>	<i>Machinery and equipment SR'000</i>	<i>Furniture and office equipment SR'000</i>	<i>Vehicles SR'000</i>	<i>Capital work in progress SR'000</i>	<i>Total SR'000</i>
Cost:							
At 1 January 2018	47,380	78,633	7,347	28,224	2,119,758	135	2,281,477
Additions	-	507	256	638	502,774	3,021	507,196
Transfer to inventories (see note (a) below)	-	-	-	-	(548,711)	-	(548,711)
At 31 December 2018	47,380	79,140	7,603	28,862	2,073,821	3,156	2,239,962
Additions	39,202	4,036	442	1,379	538,297	699	584,055
Transfer from CWIP	-	3,000	325	-	-	(3,325)	-
Disposals	-	(5,854)	(826)	(2,414)	-	(55)	(9,149)
Transfer to inventories (see note (a) below)	-	-	-	-	(512,589)	-	(512,589)
At 31 December 2019	86,582	80,322	7,544	27,827	2,099,529	475	2,302,279
Accumulated depreciation:							
At 1 January 2018	-	31,839	6,849	25,534	928,168	-	992,390
Depreciation for the year	-	4,674	245	1,423	447,258	-	453,600
Transfer to inventories (see note (a) below)	-	-	-	-	(413,926)	-	(413,926)
At 31 December 2018	-	36,513	7,094	26,957	961,500	-	1,032,064
Depreciation for the year	-	4,876	537	1,150	448,609	-	455,172
Disposals	-	(2,030)	(382)	(1,646)	-	-	(4,058)
Transfer to inventories (see note (a) below)	-	-	-	-	(407,911)	-	(407,911)
At 31 December 2019	-	39,359	7,249	26,461	1,002,198	-	1,075,267
Net book value at 31 December 2019	86,582	40,963	295	1,366	1,097,331	475	1,227,012
Net book value at 31 December 2018	47,380	42,627	509	1,905	1,112,321	3,156	1,207,898

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

13 PROPERTY AND EQUIPMENT (continued)

- a) These represent cost and accumulated depreciation of vehicles retired from fleets and transferred to vehicle inventories (note 17).
- b) Capital work in progress represents ongoing construction works of workshop.
- c) Property and equipment of the gross carrying amount of SR 197 million (2018: SR 178 million) are fully depreciated but are still in use.
- d) Depreciation charge for the year ended has been allocated as follows:

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
Cost of revenue (note 7)	454,081	452,521
General and administrative expenses (note 9)	1,091	1,079
	455,172	453,600

14 LEASES

The Group has lease contracts for leasehold buildings (i.e. workshops, accommodations and locations). Leasehold buildings have lease terms between 2 to 10 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets.

The Group also has certain leases of accommodation buildings with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

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

	<i>Total</i> <i>SR'000</i>
As at 1 January 2019	26,712
Additions	17,706
Deletion	(5,240)
Depreciation expense	(5,248)
As at 31 December 2019	33,930

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

	<i>2019</i> <i>SR'000</i>
As at 1 January	24,922
Additions	17,706
Deletion	(6,650)
Accretion of interest	1,509
Payments	(8,230)
As at 31 December 2019	29,257
Current	5,213
Non-current	24,044

The maturity analysis of lease liabilities is disclosed in note 29.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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c) The following are the amounts recognised in the consolidated statement of profit or loss:

	<i>2019</i> <i>SR'000</i>
Depreciation expense of right-of-use assets	5,248
Interest expense on lease liabilities	1,509
Expense relating to short-term leases (included in cost of revenue)	20,381
Expense relating to short-term leases (included in general and administrative expenses)	2,872
Total amount recognised in consolidated statement of profit or loss	30,010

The Group had total cash outflows for leases of SR 31.5 million in 2019. The Group also had non-cash additions to right-of-use assets and lease liabilities of SR 17.7 million in 2019.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

15 INTANGIBLE ASSETS

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
Software		
Cost		
At 1 January	8,391	7,779
Additions	159	612
Disposal	(232)	-
	<u>8,318</u>	<u>8,391</u>
Amortisation		
At 1 January	7,699	7,420
Amortisation during the year	283	279
Disposal	(128)	-
	<u>7,854</u>	<u>7,699</u>
Net book value at 31 December	<u><u>464</u></u>	<u><u>692</u></u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

16 INVESTMENTS IN ASSOCIATES

These represent Group's investments in the following associates:

	<i>Effective ownership interest (%)</i>		<i>Balance as at</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
			<i>SR'000</i>	<i>SR'000</i>
Tranzlease Holdings India Private Limited ("THL") - (Operating Lease of Motor Vehicles)	32.96%	32.96%	-	-
Unitrans Infotech Services India Private Limited ("Unitrans") - (Providing Information Technology Services)	49%	49%	1,219	1,333
			1,219	1,333

Tranzlease Holdings India Private Limited has incurred losses in previous years, the management has impaired the investment and it is appearing at nil value as mentioned above.

The associate requires the Group's consent to distribute its profits. The Group does not foresee giving such consent, if required, at the reporting date. The associate had no contingent liabilities or capital commitments as at 31 December 2018 or 2019.

The financial year-end of the associates is 31 March and management accounts have been prepared as at 31 December 2019.

Movement in the investment in associates for the year ended is as follows:

	<u>Unitrans Infotech Services India Private Limited</u>	
	<i>2019</i>	<i>2018</i>
	<i>SR'000</i>	<i>SR'000</i>
Non-current assets	332	90
Current assets	2,334	2,769
Non-current liabilities	-	-
Current liabilities	(179)	(137)
Equity	2,487	2,722
Group's share in equity – 49% (2018: 49%)	1,219	1,333
Group's carrying amount of the investment	1,219	1,333
	<i>2019</i>	<i>2018</i>
	<i>SR'000</i>	<i>SR'000</i>
Revenue	1,920	2,090
Cost of revenue and administrative expenses	(2,179)	(2,054)
Finance costs	(1)	(1)
(Loss)/Profit before tax	(260)	35
Income tax credit/(expense)	28	(20)
(Loss)/Profit for the year	(232)	15
Group's share of (loss)/profit for the year	(114)	7

The associate requires the Group's consent to distribute its profits. The Group does not foresee giving such consent at the reporting date.

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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16 INVESTMENTS IN ASSOCIATES (continued)

The associate had no contingent liabilities or capital commitments as at 31 December 2018 or 2019. The financial year end of the Unitrans Infotech Services India Private Limited is 31 March and management accounts have been prepared as at 31 December 2019. Please refer note 34 for subsequent event.

17 INVENTORIES

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
Vehicles held for sale	14,289	715
Spare parts and supplies	1,304	1,344
	<u>15,593</u>	<u>2,059</u>

18 TRADE RECEIVABLES

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
Trade receivables	191,604	219,997
Allowance for doubtful debts (see below)	(40,100)	(35,000)
	<u>151,504</u>	<u>184,997</u>

Movement in the allowance for doubtful trade receivables is as follows:

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
Balance at 1 January	35,000	29,603
Charge for the year (note 9)	9,595	5,757
Written-off during the year	(4,495)	(360)
Balance as at 31 December	<u>40,100</u>	<u>35,000</u>

See credit note 29 on credit risk of trade receivables, which explain how the Group manages and measure credit quality of trade receivables that are neither past due nor impaired. Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

19 PREPAYMENTS AND OTHER RECEIVABLES

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
Prepaid rent and other assets	15,214	21,146
Employee loans and others	3,217	3,957
	<u>18,431</u>	<u>25,103</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

20 CASH AND CASH EQUIVALENTS

	2019 SR'000	2018 SR'000
Cash on hand	1,770	1,992
Bank balances	2,885	12,310
	<u>4,655</u>	<u>14,302</u>

21 EQUITY

(a) Share capital

At 31 December 2019, the Parent Company's share capital of SR 711,666,680 (2018: SR 711,666,680) consists of 71,166,668 (2018: SR 71,166,668) fully paid shares of SR 10 each.

The Board of Directors in its meeting held on 31 January 2018, proposed final cash dividend of SR 106,749,878 (representing SR 1.5 per share) for the year ended 31 December 2017. The shareholders in the General Assembly Meeting on 30 April 2018 approved the Board's proposal and authorised issuance of final dividend.

The Board of Directors in its meeting held on 31 January 2019, proposed final cash dividend of SR 106,749,878 (representing SR 1.5 per share) for the year ended 31 December 2018. The Shareholder in the General Assembly meeting on 18 April 2019 approved the Board's proposal and authorised distribution of final dividend.

The Board of Directors in its meeting held on 24 October 2019, approved a distribution of interim cash dividend of SR 35,583,334 (representing SR 0.5 per share) for the year ended 31 December 2019.

The Board of Directors in its meeting held on 6 February 2020, proposed final cash dividend of SR 106,750,002 (representing SR 1.5 per share) for the year ended 31 December 2019.

(b) Statutory reserve

In accordance with bye-laws of the Parent Company and Companies Law, the Parent Company has transferred 10% of its net income for the year to the statutory reserve. The Parent Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital.

22 BANK BORROWINGS

	2019 SR'000	2018 SR'000
Murabaha sale agreements	16,173	105,461
Al Tawarroq agreements	44,166	-
Gross debts	<u>60,339</u>	<u>105,461</u>
Less current portion:		
Murabaha sale agreements	(16,173)	(89,610)
Al Tawarroq agreements	(40,833)	-
	<u>(57,006)</u>	<u>(89,610)</u>
Non-current portion	<u>3,333</u>	<u>15,851</u>

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

22 BANK BORROWINGS (continued)

Group's bank borrowings consist of long-term bank debts under various Islamic Finance Products including Murabaha and Al Tawarroq arrangements with commercial banks in Kingdom of Saudi Arabia. Such debts bear financing charges at the prevailing market rates at the time of entering into the debt contracts. These loans are secured by demand promissory notes. The loan agreements include covenants which, among other things, require certain financial ratios to be maintained. The instalments due within twelve months from the date of financial position are shown as a current liability in the consolidated statement of financial position. The bank borrowings are repayable in monthly variable instalments with the last instalment payable on 28 February 2021.

23 EMPLOYEE BENEFITS

General description of the plan

The Group operates an unfunded employees' end of service benefits plan ("EOSB") for its employees as required by the Saudi Arabian Labor Law. The movement in EOSB for the year ended is as follows:

	2019 SR'000	2018 SR'000
Balance at 1 January	43,537	35,774
<i>Included in consolidated statement of profit or loss</i>		
Current service cost	4,803	3,334
Interest cost, net	1,757	1,738
	6,560	5,072
<i>Included in consolidated statement of other comprehensive income</i>		
Actuarial losses/(gains):		
Effect of change in financial assumptions	5,254	4,380
Experience loss/(gain)	(2,412)	2,848
	2,842	7,228
	52,939	48,074
Benefits paid	(2,527)	(4,537)
Balance at 31 December	50,412	43,537

Allocation of EOSB charge between cost of revenue, selling and marketing expenses and general and administrative expenses is as follows:

	2019 SR'000	2018 SR'000
Cost of revenue	2,492	1,707
Selling and marketing expenses	1,747	1,862
General and administrative expenses	2,321	1,503
	6,560	5,072

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

23 EMPLOYEE BENEFITS (continued)

Actuarial assumptions

The following were the principal actuarial assumptions applied at the reporting date:

	2019	2018
Discount rate	3.25%	4%
Future salary growth / Expected rate of salary increase		
- First four years	3%	3%
- Thereafter	5%	5%
Mortality rate	0.790 – 10.540 per thousand	0.790 – 10.540 per thousand
Employee turnover / withdrawal rates	0 – 132 per thousand	0 – 132 per thousand
Retirement age	60 years	60 years

The quantitative sensitivity analysis for principal assumptions is as follows:

31 December 2019

	Impact on EOSB Increase / (decrease)		
	Change in assumption by	Increase in assumption by SR'000	Decrease in assumption by SR'000
Discount rate	1%	(5,161)	6,055
Future salary growth / Expected rate of salary increases	1%	5,832	(5,035)
Mortality rate	1 year	(69)	86
Employee turnover / withdrawal rates	1 year	(119)	139
Retirement age	1 year	366	(391)

31 December 2018

	Impact on EOSB Increase / (decrease)		
	Change in assumption by	Increase in assumption by SR'000	Decrease in assumption by SR'000
Discount rate	1%	(4,381)	4,831
Future salary growth / Expected rate of salary increases	1%	4,583	(4,048)
Mortality rate	1 year	(57)	74
Employee turnover / withdrawal rates	1 year	(103)	120
Retirement age	1 year	314	(336)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

The weighted average duration of the defined benefit obligation is 9 years.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

23 EMPLOYEE BENEFITS (continued)

The following payments are expected for the defined benefit plan in future years:

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
Within the next 12 months (next annual reporting period)	5,265	3,728
Between 2 and 5 years	6,647	7,202
Between 5 and 10 years	15,237	9,541
Beyond 10 years	49,412	51,005
Total expected payments	<u>76,561</u>	<u>71,476</u>

24 TRADE PAYABLES

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
Suppliers for vehicles	45,566	86,798
Suppliers for stores, spares and others	36,764	31,187
	<u>82,330</u>	<u>117,985</u>

Trade payables are non-interest bearing and are normally settled on 60-day terms.

25 ACCRUED EXPENSES AND OTHER LIABILITIES

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
Accrued expenses	29,940	21,152
Employees' related accruals	6,900	5,462
Advances from customers	908	384
Others	25,984	9,585
	<u>63,732</u>	<u>36,583</u>

26 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. The transactions with related parties are made at terms equivalent to those that prevail in arm's length transactions.

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

26 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

a) The significant transactions and the related balances are as follows:

<u>Related party</u>	<u>Nature of relationship</u>	<u>Nature of transactions</u>	<u>Amounts of transactions</u>		<u>Balance at</u>	
			<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
			<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>
Zahid Group	Shareholder	Car rentals	31	44	-	-
		Location rent	-	-	7	85
Abdulillah Abdullah Al Zahid Trading Establishment	Other related party	Services received	-	283	-	-
		Used car sale	-	6,430	-	-
Law Firm of Bassim A Alim Law	Other related party	Professional services	1,200	-	-	-
Key management personnel	Employees	Short term benefits	8,294	5,270	-	-
		Long term benefits	577	1,461	-	-
		Board of Directors remuneration	2,543	4,093	2,543	2,112

The balances due are included in accrued expenses and other liabilities in the consolidated statement of the financial position.

27 CONTINGENCIES AND COMMITMENTS

Contingencies

At 31 December 2019, the Group has outstanding letters of guarantee amounting to SR 8.9 million (2018: SR 6.2 million) issued by the local banks on behalf of Group in the ordinary course of business.

Commitments

At 31 December 2019, the Group has future capital commitments amounting to SR Nil (31 December 2018: SR 3.48 million).

28 SEGMENTAL INFORMATION

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

- Lease segment – represents cars leased out to customers under medium to longer term rental arrangements
- Rental segment – represents cars leased out to customers under short term rental arrangements
- Others – represents inventories, other assets and liabilities and related income & expense for items not classified under lease and rental segments.

No operating segments have been aggregated to form the above reportable operating segments.

Segment results that are reported to the top management (Chairman, President & Group Chief Executive Officer (GCEO), Director Corporate Affairs, Director of Operation (DOO) and Group Chief Financial Officer (GCFO)) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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28 SEGMENTAL INFORMATION (continued)

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenues, as included in the internal management reports that are reviewed by the top management. There are no inter segment revenue reported during the year.

The following table presents segment information for the year ended 31 December:

<i>Particulars</i>	<i>Lease</i>		<i>Rental</i>		<i>Others</i>		<i>Total</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Revenue - external customers	509,398	546,557	273,469	231,114	260,627	263,299	1,043,494	1,040,970
Depreciation of vehicles	(308,848)	(331,939)	(139,761)	(115,319)	-	-	(448,609)	(447,258)
Segment profit	200,550	214,618	133,708	115,795	260,627	263,299	594,885	593,712
Unallocated income/(expenses):								
Cost of revenue							(297,525)	(318,630)
Other operating income, net							1,548	3,812
Selling and marketing expenses							(42,946)	(40,658)
General and administrative expenses							(66,784)	(55,640)
Finance costs, net							(4,921)	(7,543)
Share of results of associates							(114)	7
Profit before zakat							184,143	175,060

Detail of segment assets and liabilities is given below:

<i>Particulars</i>	<i>Allocated</i>		<i>Unallocated</i>	
	<i>Lease</i>	<i>Rental</i>	<i>Other</i>	<i>Total</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
2019				
Segment assets	745,323	352,008	355,477	1,452,808
Segment liabilities	-	-	293,009	293,009
2018				
Segment assets	791,909	320,416	324,059	1,436,384
Segment liabilities	-	-	310,029	310,029
Other disclosures				
<i>Particulars</i>	<i>Allocated</i>		<i>Unallocated</i>	
	<i>Lease</i>	<i>Rental</i>	<i>Other</i>	<i>Total</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
2019				
Capital expenditures	321,968	216,329	45,917	584,214
2018				
Capital expenditures	287,702	215,072	5,034	507,808

Capital expenditure consists of additions of property and equipment and intangible assets.

Finance income and costs, and gains and losses on financial assets are not allocated to individual segments as the underlying instruments are managed on a group basis. Zakat and financial assets and liabilities are not allocated to those segments as they are also managed on a group basis.

UNITED INTERNATIONAL TRANSPORTATION COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

29 FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Group's principal financial liabilities comprise borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include trade and other receivables and cash and cash equivalents.

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risks, currency risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on robust liquidity management as well as monitoring of various relevant market variables, thereby consistently seeking to minimize potential adverse effects on the Group's financial performance.

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 borrowings.

Interest rate risk

Interest rate risk is the exposure to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group manages the interest rate risk by regularly monitoring the interest rate profiles of its interest bearing financial instruments.

At the reporting date all borrowings are at fixed rate and there is no profit rate sensitivity for the year.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals. However, the Group has investments in foreign associates, whose net assets are exposed to currency translation risk. Currently, such exposures are mainly related to exchange rate movements between local currencies against Indian Rupees. The Group's management monitors such fluctuations and manages its effect on the consolidated financial statements accordingly.

Other price risk

The Group is not affected by price risk as there is no investment of the Group in equity shares or commodities.

Credit risk

Credit risk is the risk that one party to financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group has no significant concentration of credit risk. Concentration risk arises when a number of counterparties engaged in similar business activities or activities in the same geographical region or have economic features that would cause them to fail their contractual obligations. To reduce exposure to credit risk, the Group has developed a formal 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 those balances considered doubtful of recovery.

Credit risk (continued)

To mitigate the risk, the Group has a system of assigning credit limits to its customers based on an extensive evaluation based on customer profile and payment history.

The Groups gross maximum exposure to credit risk at the reporting date is as follows:

	2019 SR'000	2018 SR'000
Financial assets		
Trade receivable (note 18)	191,604	219,997
Cash and cash equivalents (note 20)	4,655	14,302
	<u>196,259</u>	<u>234,299</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

29 FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. The 5 largest customers account for 13% of outstanding accounts receivable at 31 December 2019 (2018: 16%).

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than two years and are not subject to enforcement activity if the cost of such activity is expected to be higher than the benefit of doing so. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. Outstanding customer receivables are regularly monitored. Some customers are also secured, where possible, by way of cash security deposit or advance, which are considered integral part of trade receivables and considered in the calculation of impairment. The credit risk exposure of the Group on trade receivables, excluding secured receivables and using a provision matrix, ranges from 2.63% to 35.02% on trade receivables ageing less than 90 days to above 365 days, respectively.

There were no past due or impaired receivables from related parties.

Liquidity risk

Liquidity risk is the risk that an enterprise 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 has no significant concentration of credit risk.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

2019	Within 1 year SR'000	1 to 5 years SR'000	More than 5 years SR'000	Total SR'000
Bank borrowings	57,006	3,333	-	60,339
Lease liabilities	5,213	24,044	-	29,257
Trade payables	82,330	-	-	82,330
	<u>144,549</u>	<u>27,377</u>	<u>-</u>	<u>171,926</u>

Liquidity risk (continued)

2018	Within 1 year SR'000	1 to 5 years SR'000	More than 5 years SR'000	Total SR'000
Bank borrowings	89,610	15,851	-	105,461
Trade payables	117,985	-	-	117,985
	<u>207,595</u>	<u>15,851</u>	<u>-</u>	<u>223,446</u>

30 CAPITAL MANAGEMENT

For the purpose of the Group's capital management, capital includes issued capital, statutory reserve and retained earnings attributable to the equity holders of the Parent Company. The primary objective of the Group's capital management is to maximize the shareholder value.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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30 CAPITAL MANAGEMENT

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 dividend 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 debt. The Group includes within debt, current and non-current portion of borrowings.

	2019 SR'000	2018 SR'000
Debt – Bank borrowings and lease liabilities	89,596	105,461
Equity	1,159,798	1,126,355
Capital and debt	1,249,394	1,231,816
Gearing ratio	0.07	0.09

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 borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call borrowings. There have been no breaches of the financial covenants of any borrowings in the current year. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

31 FAIR VALUE OF ASSETS AND LIABILITIES

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

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

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

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

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

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 IFRS

If the inputs used to measure the fair value of an asset or liability falls into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

**UNITED INTERNATIONAL TRANSPORTATION COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

31 FAIR VALUE OF ASSETS AND LIABILITIES (continued)

As at 31 December 2019 and 31 December 2018, the fair values of the Group's financial instruments are estimated to approximate their carrying values and are classified under level 2 of the fair value hierarchy. No significant inputs were applied in the valuation of trade receivables as at 31 December 2019 and 31 December 2018.

Fair values of the Group's borrowings are determined by using DCF method using discount rate that reflects the borrowing rate as at the end of the reporting period. As at 31 December 2019 and 31 December 2018, the carrying amounts of borrowings were not materially different from their calculated fair values.

During the year ended 31 December 2019 and 2018, there were no movements between the levels.

32 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Changes in liabilities arising from financing activities:

	<i>1 January 2019 SR'000</i>	<i>Cash flows SR'000</i>	<i>New leases SR'000</i>	<i>Other SR'000</i>	<i>31 December 2019 SR'000</i>
Current portion of borrowings	89,610	(136,122)	-	103,518	57,006
Lease liabilities	24,922	(8,230)	17,706	(5,141)	29,257
Non-current portion of borrowings	15,851	91,000	-	(103,518)	3,333
Total	<u>130,383</u>	<u>(53,352)</u>	<u>17,706</u>	<u>(5,141)</u>	<u>89,596</u>
		<i>1 January 2018 SR'000</i>	<i>Cash flows SR'000</i>	<i>Other SR'000</i>	<i>31 December 2018 SR'000</i>
Current portion of borrowings		188,063	(263,092)	164,639	89,610
Non-current portion of borrowings		60,490	120,000	(164,639)	15,851
Total		<u>248,553</u>	<u>(143,092)</u>	<u>-</u>	<u>105,461</u>

The 'Other' column includes the effect of termination of lease and reclassification of non-current portion of interest-bearing borrowing to current due to the passage of time.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

33 BRANCHES

The Parent Company has the following branches:

Commercial Registration Numbers	Location of Branch	Commercial Registration Number	Location of Branch
23309	Abha	29417	Madinah
69857	Abha	29418	Madinah
03205	Al Baha	48863	Madinah
38171	Al Kharj	48865	Madinah
08840	Al Qunfodah	12787	Madinah
01874	Al-Dhahran	57088	Madinah
40229	Al-Mubaraz	49745	Madinah
33796	Besh	49746	Madinah
08845	Besha	68567	Mahayel
38809	Buridah	37822	Makkah
91649	Buridah	02769	Makkah
15153	Dammam	37762	Makkah
92741	Dammam	37763	Makkah
39420	Hail	98979	Makkah
92623	Jeddah	18884	Makkah
35842	Jeddah	22237	Makkah
43757	Jeddah	30925	Makkah
04007	Jeddah	25900	Najran
30782	Jeddah	02374	Rabeg
10924	Jeddah	79991	Riyadh
98923	Jeddah	89448	Riyadh
58776	Jeddah	47720	Riyadh
66373	Jeddah	88386	Riyadh
96161	Jeddah	49626	Riyadh
06710	Jeddah	49628	Riyadh
06712	Jeddah	49627	Riyadh
14976	Jeddah	52751	Riyadh
43758	Jeddah	79992	Riyadh
45422	Jeddah	79993	Riyadh
68973	Jeddah	79995	Riyadh
69630	Jeddah	79996	Riyadh
69631	Jeddah	79997	Riyadh
21293	Jeddah	30558	Tabuk
92619	Jeddah	09574	Taif
92620	Jeddah	27594	Taif
92621	Jeddah	27595	Taif
14036	Jizan	22946	Tubuk
32219	Jizan	38423	Tubuk
05127	Jubail	01394	Yanbu
21493	Khamis Mushit	03067	Yanbu
71445	Khamis Mushit	20216	Yanbu
71446	Khamis Mushit	20217	Yanbu
25750	Khobar	08180	Yanbu
29416	Madinah		

34 SUBSEQUENT EVENTS

Subsequent to the year end, on 26 January 2020, the Board of Directors of the Company has decided to acquire the remaining 51% shareholding of an existing associate Unitrans Infotech Services India Private Limited with purchase consideration of SR 2.869 million.

35 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been approved by the Board of Directors on 6 February 2020, corresponding to 12 Jumada II 1441H.