

Al Khaleej Training and Education Company
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED
31 DECEMBER 2018

AL KHALEEJ TRAINING AND EDUCATION COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of
Al Khaleej Training and Education Company and its subsidiaries
(A Saudi Joint Stock Company)
Riyadh, Saudi Arabia

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Al Khaleej Training and Education Company ("the Company") and its Subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of 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 taken as a whole present fairly, in all material respects, the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as endorsed in the Kingdom of Saudi Arabia by the Saudi Organization for Certified Public Accountants (SOCPA) and other standards and pronouncements endorsed by SOCPA.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Saudi Arabia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters (KAMs)

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For each key audit matter, a description of how our audit addressed the matter is set out below:

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Key Audit Matters (KAMs) (continued)

1. Adoption of IFRS 9 “Financial Instruments”

The Group adopted the accounting standard IFRS 9 “Financial instruments” at the beginning of the year. The new standard supersedes the requirements of IAS 39 “Financial instruments – recognition and measurement”.

IFRS 9 addresses a new classification and measurement approach for financial assets that reflects the business model in which the financial assets are managed and the underlying cashflow characteristics. IFRS 9 introduces new impairment rules which prescribe a new, forward looking, expected credit loss (‘ECL’) impairment model which takes into account reasonable and supportable forward-looking information, which will generally result in the earlier recognition of impairment provisions.

We considered this as a key audit matter due to the judgments and estimates involved in the application of the expected credit loss model.

We performed the following audit procedures in relation to the implementation of IFRS 9:

- Reviewed management’s assessment of the impact of the IFRS 9 in terms of the classification and measurement of financial assets and financial liabilities. We specifically considered the validity of management’s conclusion that the main area of impact was in respect of impairment of accounts receivable;
- Reviewed the ECL model assumptions and reasonableness used as required by the IFRS 9. We also tested the arithmetical accuracy of the model;
- Tested key assumptions used by the management to those used to calculate the likelihood of default and the subsequent loss on default, by comparing to historical data. We also considered the forward-looking factors to reflect the impact of future events on expected credit loss model; and
- Reviewed the adequacy of the disclosures required in the consolidated financial statements in relation to adoption of new standard.

Financial instruments are disclosed in notes 25 and 26 to the consolidated financial statements. The Group’s accounting policies for financial instruments are disclosed in note 3-2/(B) to the consolidated financial statements.

2. Adoption of IFRS 15 “Revenue from contracts with customers”

The Group adopted IFRS 15 “Revenue from contracts with customers” starting from 1 January 2018 and this new standard supersedes the requirements of IAS 18 “Revenues”.

Management performed detailed analysis for each type of revenue contract with the customers to identify differences between the requirements of the two standards, identify the changes required to be made to the existing accounting policies and determine the transition adjustments and consequential changes to processes and controls required particularly in connection with the separation of different performance obligations that there may be within a given contract.

We considered it as a key audit matter as revenue is a key financial statement item and the adoption of IFRS 15 can require judgement by management and the use of significant assumptions.

Our audit procedures in this area included, amongst other things:

- Reviewed detailed analysis carried out by the management for various revenue streams and how the new standard impacts the Group;

Key Audit Matters (KAMs) (continued)

2. Adoption of IFRS 15 “Revenue from contracts with customers” (continued)

- Gained an understanding of management’s approach to the implementation of any changes to accounting policy;
- Obtained an understanding of the nature of the revenue contracts used by the Group for each significant revenue stream, tested a sample of sales contracts to confirm our understanding and assess whether or not management’s application of IFRS 15 requirements was in accordance with the said standard;
- Reviewed the design and implementation of the process and internal control of the Group, to ensure appropriate revenue recognition; and
- Assess the adequacy of the Group’s disclosures in relation to the adoption of new standard in accordance with IFRS 15.

The Group’s accounting policies for revenues are disclosed in note 3-2/(A) to the consolidated financial statements.

Other information included in the Group’s annual report

Other information consists of the information included in the Group’s 2018 annual report, other than the financial statements and our auditors’ report thereon. Management is responsible for the other information in its annual report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 IFRSs, as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, applicable requirements of Regulation for Companies and by-laws of the Group 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, being the “Audit Committee”, 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 auditors' 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 ISAs 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 ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' 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; and
- 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.

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 year and are therefore the key audit matters. We describe these matters in our auditors' 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.

Report on other legal and regulatory requirements

Article (135) of the Companies Law requires that the auditor includes in his report violations to the provisions of the Companies Law or Company's articles of association. During the course of our audit of the consolidated financial statements, we have not discovered a violation to the provisions of the Companies Law or the provisions of the Company's articles of association.

Riyadh, 14 Rajab 1440 H
Corresponding to 21 March 2019 G




**Aldar Audit Bureau
Abdullah Al Basri & Co.**

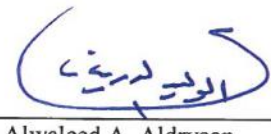
**Abdullah M. Al Basri
Certified Public Accountant
(License No. 171)**

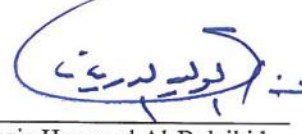
AL KHALEEF TRAINING AND EDUCATION COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

| | Notes | 31 December 2018 SR | 31 December 2017 SR (Restated note 30) |
|---|-------|---------------------------|---|
| ASSETS | | | |
| Non-current assets | | | |
| Goodwill and other intangible assets, net | 5 | 39,730,597 | 38,713,134 |
| Property and equipment, net | 6 | 807,085,149 | 792,718,977 |
| Investment in equity instruments at fair value through other comprehensive income | 7 | 18,930,188 | 18,759,045 |
| | | 865,745,934 | 850,191,156 |
| Current assets | | | |
| Cash and cash equivalent | 8 | 38,465,027 | 26,307,843 |
| Accounts receivable, net | 9 | 335,096,585 | 301,867,219 |
| Other current assets | 10 | 69,250,467 | 65,556,357 |
| Unbilled revenues | | 15,366,930 | 4,842,023 |
| Inventory, net | 11 | 13,303,423 | 13,990,267 |
| Due from related parties | 12 | 415,405 | 1,746,629 |
| | | 471,897,837 | 414,310,338 |
| TOTAL ASSETS | | 1,337,643,771 | 1,264,501,494 |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to the shareholders of the parent | | | |
| Share capital | 13 | 450,000,000 | 400,000,000 |
| Statutory reserve | | 76,627,243 | 73,192,562 |
| Retained earnings | | 29,240,661 | 71,666,465 |
| Foreign currency translation reserve | | (2,755,173) | (1,671,251) |
| Fair value reserve | 7 | 171,143 | --- |
| Total equity attributable to the shareholders of the parent | | 553,283,874 | 543,187,776 |
| Non-controlling interest | | 8,470,817 | 10,046,784 |
| Total equity | | 561,754,691 | 553,234,560 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Long-term loans | 14 | 136,827,670 | 181,525,288 |
| Deferred gain from sale of property and equipment | 15 | 12,458,098 | 13,261,846 |
| Finance lease obligations | 15 | 58,032,193 | 60,452,309 |
| Employees' end of service benefits | 16 | 53,965,487 | 47,515,089 |
| | | 261,283,448 | 302,754,532 |
| Current liabilities | | | |
| Banks overdraft | | 90,138,354 | 79,753,029 |
| Short-term loans | 14 | 289,459,002 | 212,400,000 |
| Current portion of long-term loans | 14 | 44,716,619 | 34,581,703 |
| Current portion of deferred gain from sale of property and equipment | 15 | 803,748 | 803,748 |
| Current portion of finance lease obligations | 15 | 2,469,689 | 3,038,867 |
| Trade and other payables | 17 | 82,318,540 | 61,361,283 |
| Due to related parties | 12 | 1,968,594 | 295,157 |
| Zakat and income tax payable | 18 | 2,731,086 | 16,278,615 |
| | | 514,605,632 | 408,512,402 |
| Total liabilities | | 775,889,080 | 711,266,934 |
| TOTAL EQUITY AND LIABILITIES | | 1,337,643,771 | 1,264,501,494 |


Faisal Siddique
Chief Financial Officer


Alwaleed A. Aldryaan
Chief Executive Officer



Abdulaziz Hammad Al-Bulaih
Chairman

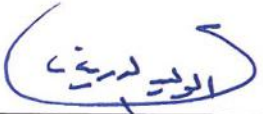
The accompanying notes from 1 to 31 form an integral part of these consolidated financial statements


AL KHALEEJ TRAINING AND EDUCATION COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018

| | Notes | 31 December 2018 SR | 31 December 2017 SR (Restated note 30) |
|--|-------|---------------------------|---|
| Revenues | | 802,516,605 | 709,992,136 |
| Cost of revenues | | (644,716,914) | (526,752,446) |
| GROSS PROFIT | | 157,799,691 | 183,239,690 |
| Selling and marketing expenses | 19 | (41,640,102) | (44,661,869) |
| General and administration expenses | 20 | (50,099,963) | (56,331,342) |
| Impairment of other financial assets | 9 | (8,506,090) | (9,562,061) |
| PROFIT FROM MAIN OPERATIONS | | 57,553,536 | 72,684,418 |
| Goodwill impairment | 5 | (704,060) | (326,486) |
| Financial charges | | (26,703,652) | (21,956,706) |
| Other income, net | 21 | 5,518,549 | 5,890,601 |
| PROFIT BEFORE ZAKAT AND INCOME TAX | | 35,664,373 | 56,291,827 |
| Zakat and income tax | 18 | (1,317,563) | (2,000,000) |
| NET PROFIT FOR THE YEAR | | 34,346,810 | 54,291,827 |
| NET PROFIT FOR THE YEAR ATTRIBUTABLE TO: | | | |
| Shareholders of the parent | | 32,357,877 | 51,697,347 |
| Non-controlling interest | | 1,988,933 | 2,594,480 |
| | | 34,346,810 | 54,291,827 |
| BASIC AND DILUTED EARNINGS PER SHARE OF NET PROFIT FOR THE YEAR | 23 | 0.72 | 1.15 |


Faisal Siddique
Chief Financial Officer


Alwaleed A. Aldryaan
Chief Executive Officer



Abdulaziz Hammad Al-Bulaihid
Chairman

The accompanying notes from 1 to 31 form an integral part of these consolidated financial statements

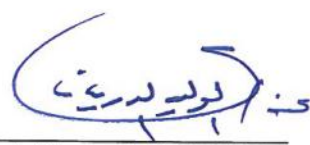
AL KHALEEJ TRAINING AND EDUCATION COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

| | 31 December 2018 | 31 December 2017 |
|--|-----------------------------|--------------------------|
| | SR | SR (Restated note 30) |
| NET PROFIT FOR THE YEAR | 34,346,810 | 54,291,827 |
| <u>OTHER COMPEREHSINVE INCOME</u> | | |
| <i>Items that will be reclassified subsequently to profit or loss:</i> | | |
| Foreign currency translation reserve | (2,648,822) | (917,033) |
| Unrealized gain on investment in equity instruments at fair value through other comprehensive income | 171,143 | --- |
| Net other comprehensive loss that will be reclassified subsequently to profit or loss | (2,477,679) | (917,033) |
| <i>Items that will not be reclassified subsequently to profit or loss:</i> | | |
| Actuarial loss on re-measurement of end of service benefits | (1,349,000) | --- |
| TOTAL OTHER COMPEREHSINVE LOSS | (3,826,679) | (917,033) |
| TOTAL PROFIT AND OTHER COMPREHENSIVE LOSS | 30,520,131 | 53,374,794 |
| TOTAL PROFIT AND OTHER COMPREHENSIVE LOSS | | |
| ATTRIBUTABLE TO: | | |
| Shareholders of the parent | 30,096,098 | 51,139,845 |
| Non-controlling interest | 424,033 | 2,234,949 |
| | 30,520,131 | 53,374,794 |


Faisal Siddique
Chief Financial Officer


Alwaleed A. Aldryaan
Chief Executive Officer



Abdulaziz Hammad Al-Bulaihid
Chairman

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AL KHALEEJ TRAINING AND EDUCATION COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

| | Equity attributable to the shareholders of the parent | | | | | Total equity | |
|---|---|-------------------|-------------------|--------------------------------------|--------------------|--------------------------|--------------------|
| | Share capital | Statutory reserve | Retained earnings | Foreign currency translation reserve | Fair value reserve | Non-controlling interest | Total |
| | SR | SR | SR | SR | SR | SR | SR |
| Balance at 1 January 2017 | 400,000,000 | 67,932,827 | 45,228,853 | (1,113,749) | --- | 9,571,800 | 521,619,731 |
| Net profit for the year | --- | --- | 51,697,347 | --- | --- | 2,594,480 | 54,291,827 |
| Other comprehensive loss for the year | --- | --- | --- | (557,502) | --- | (359,531) | (917,033) |
| Total profit and other comprehensive loss | --- | --- | 51,697,347 | (557,502) | --- | 2,234,949 | 53,374,794 |
| Transfer to statutory reserves | --- | 5,259,735 | (5,259,735) | --- | --- | --- | --- |
| Dividends paid | --- | --- | (20,000,000) | --- | --- | --- | (20,000,000) |
| Dividends to non-controlling interest | --- | --- | --- | --- | --- | (1,759,965) | (1,759,965) |
| Balance at 31 December 2017 (Restated note 30) | <u>400,000,000</u> | <u>73,192,562</u> | <u>71,666,465</u> | <u>(1,671,251)</u> | <u>---</u> | <u>10,046,784</u> | <u>553,234,560</u> |
| Balance at 1 January 2018 (Restated note 30) | <u>400,000,000</u> | <u>73,192,562</u> | <u>71,666,465</u> | <u>(1,671,251)</u> | <u>---</u> | <u>10,046,784</u> | <u>553,234,560</u> |
| Net profit for the year | --- | --- | 32,357,877 | --- | --- | 1,988,933 | 34,346,810 |
| Other comprehensive income for the year | --- | --- | (1,349,000) | (1,083,922) | 171,143 | (1,564,900) | (3,826,679) |
| Total profit and other comprehensive loss | --- | --- | 31,008,877 | (1,083,922) | 171,143 | 424,033 | 30,520,131 |
| Capital increase | 50,000,000 | --- | (50,000,000) | --- | --- | --- | --- |
| Transfer to statutory reserves | --- | 3,434,681 | (3,434,681) | --- | --- | --- | --- |
| Dividends paid | --- | --- | (20,000,000) | --- | --- | --- | (20,000,000) |
| Dividends to non-controlling interest | --- | --- | --- | --- | --- | (2,000,000) | (2,000,000) |
| Balance at 31 December 2018 | <u>450,000,000</u> | <u>76,627,243</u> | <u>29,240,661</u> | <u>(2,755,173)</u> | <u>171,143</u> | <u>8,470,817</u> | <u>561,754,691</u> |


Faisal Siddique
Chief Financial Officer


Alwaleed A. Aldryaan
Chief Executive Officer



Abdulaziz Hammad Al-Bulaihid
Chairman

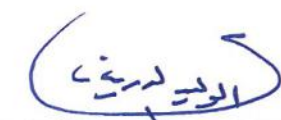
The accompanying notes from 1 to 31 form an integral part of these consolidated financial statements

AL KHALEEJ TRAINING AND EDUCATION COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

| | 31 December 2018 | 31 December 2017 |
|--|-----------------------------|-----------------------------|
| | SR | SR |
| | | (Restated note 30) |
| <u>OPERATING ACTIVITIES</u> | | |
| Profit before zakat and income tax | 35,664,373 | 56,291,827 |
| Adjustments to reconcile net profit before zakat and tax to net cash from operating activities: | | |
| Depreciation and amortization | 22,170,644 | 25,935,271 |
| Goodwill impairment | 704,060 | 326,486 |
| Bad debts | (2,739,269) | (5,113,029) |
| Impairment of other financial assets | 8,506,090 | 9,562,061 |
| Provision of obsolete inventory | --- | 857,095 |
| Reversal of provision | --- | (295,463) |
| Deferred gain on sale of property and equipment | (803,748) | (803,748) |
| Loss/(gain) from sale of property and equipment | 118,200 | (62,974) |
| Provision for employees' end of service benefits | 14,970,833 | 13,501,899 |
| | 78,591,183 | 100,199,425 |
| Net changes in working capital: | | |
| Accounts receivable | (38,996,187) | (68,976,267) |
| Other current assets | (3,694,110) | 30,640,276 |
| Unbilled revenue | (10,524,907) | (898,450) |
| Inventories | 686,844 | (579,768) |
| Related parties, net | 3,004,661 | (5,078,430) |
| Trade and other payables | 20,957,257 | 26,501,448 |
| Cash from operating activities | 50,024,741 | 81,808,234 |
| Employees' end of service benefits paid | (9,869,435) | (9,787,944) |
| Zakat and income tax paid | (14,865,092) | (2,377,800) |
| Net cash from operating activities | 25,290,214 | 69,642,490 |
| <u>INVESTING ACTIVITIES</u> | | |
| Purchase of property and equipment | (36,196,148) | (103,220,533) |
| Additions to intangible assets | (2,180,391) | (1,196,970) |
| Proceed from sale of property and equipment | --- | 2,041,583 |
| Net cash used in investing activities | (38,376,539) | (102,375,920) |
| <u>FINANCING ACTIVITIES</u> | | |
| Banks overdraft | 10,385,325 | 43,076,562 |
| Term loans, net | 42,496,300 | 16,207,467 |
| Finance lease, net | (2,989,294) | (1,012,581) |
| Dividends paid | (20,000,000) | (20,000,000) |
| Foreign currency translation reserve | (1,083,922) | (557,502) |
| Non-controlling interest | (3,564,900) | (2,119,496) |
| Net cash from financing activities | 25,243,509 | 35,594,450 |
| Net change in cash and cash equivalent | 12,157,184 | 2,861,020 |
| Cash and cash equivalent at the beginning of the year | 26,307,843 | 23,446,823 |
| Cash and cash equivalent at the end of the year | 38,465,027 | 26,307,843 |


Faisal Siddique
Chief Financial Officer


Alwaleed A. Aldryaan
Chief Executive Officer


Abdulaziz Hammad Al-Bulaihid
Chairman

The accompanying notes from 1 to 31 form an integral part of these consolidated financial statements

AL KHALEEJ TRAINING AND EDUCATION COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2018

1. CORPORATE AND GROUP INFORMATION

1-1 Corporate information

Al Khaleej Training and Education Company ("the Company") is a Saudi Joint Stock Company registered under commercial registration number 1010103367 dated 30 Jamada Al Awal 1413 H (corresponding to 24 November 1992 G). The head office located at Olaya area, Riyadh.

The Company and its subsidiaries (together, "the Group") are engaged in the training services for computer and related electronics services, establishment and constructions of schools and cafeterias, teaching English language, holding training courses, operation maintenance and computer software, installation of networks, infrastructures, communication systems, call centers and technical supports.

1-2 Group information

The following is the list of subsidiaries included in these consolidated financial statements which provide training services. The ownership percentages below as of 31 December 2018 and 31 December 2017.

| <i>Subsidiary companies</i> | <i>Country of incorporation</i> | <i>Direct / indirect ownership</i> |
|--|--|---|
| Fast Lane Group (Fast Lane Consultancy duty free – LTD.) | United Arab Emirates | 80% |
| Al Khaleej Training and Information Technology Company | Egypt | 57% |
| Online Trading Academy Duty free – LTD. | United Arab Emirates | 100% |
| Applied Digital Media Services Company | United Arab Emirates | 90% |
| Franklin Covey Middle East Company and its subsidiaries* | United Arab Emirates | 61% |
| Linguaphone Limited Company | United Kingdom | 100% |
| Jobzella | Egypt | 60% |

*During the year 2018, the Company has acquired an additional equity share in Franklin Covey Middle East Company to reach 61% (31 December 2017: 51%). The acquisition resulted goodwill amounting to SR 857,000.

2. BASIS OF PREPARATION

2-1 Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA"). They have been prepared under the assumption that the Group operates on a going concern basis.

2-2 Basis of consolidation

The consolidated financial statements comprise of the consolidated statements of financial position, consolidated statements of profit or loss, consolidated statements of other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows and explanatory notes of the Group. Which include assets, liabilities and the result of operations of the company and its subsidiaries as stated in note (1) above. The Company and its subsidiaries (collectively referred to as "the Group").

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control commences until the date on which control ceases.

2. BASIS OF PREPARATION (CONTINUED)

2-2 Basis of consolidation (Continued)

Intra-group balances and transactions, and any unrealized profit and loss arising from intragroup transactions, are eliminated. Accounting policies of subsidiaries are aligned, where necessary, to ensure consistency with the policies adopted by the Group. The Company and its subsidiaries have the same reporting dates.

2-3 Business combination

The Group accounts for the business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identified net assets acquired. The excess of the cost of acquisition and fair value of Non-Controlling Interest ("NCI") over the fair value of the identifiable net assets acquired is recorded as goodwill in consolidated statement of financial position. NCI are measured at their proportionate share of the acquires identifiable net assets at the date of acquisition. The portion of profit or loss and net assets not controlled by the Group are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position.

2-4 Functional and presentation currency

The consolidated financial statements are presented in Saudi Riyals (SR) which is the functional currency of the parent company.

3. NEW STANDARDS, AMENDMENTS AND STANDARDS ISSUED AND NOT YET EFFECTIVE

3-1 Standards issued but not yet effective

Following are the new standards and amendments to standards which are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

- IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including 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 is effective for annual periods beginning on or after 1 January 2019 and earlier adoption is permitted.

Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose whether to:

- Apply the IFRS 16 definition of a lease to all its contracts; or
- Apply a practical expedient and not reassess whether a contract is, or contains, a lease.

Transition

As a lessee, the Group can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Group currently plans to apply IFRS 16 initially on 1 January 2019. The Group has not yet determined which transition approach to apply.

As a lessor, the Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

- Annual improvements to IFRSs 2015–2017 cycle.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2018

3. NEW STANDARDS, AMENDMENTS AND STANDARDS ISSUED AND NOT YET EFFECTIVE (CONTINUED)

3-1 Standards issued but not yet effective (Continued)

-**IFRS 3 Business combinations and IFRS 11 joint arrangements** - clarifies how a company accounts for increasing its interest in a joint operation that meets the definition of a business.
- If a party maintains (or obtains) joint control, then the previously held interest is not re-measured.
- If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party re-measures the previously held interest at fair value.

-**IAS 23 Borrowing Costs** - clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

3-2 New standards adopted as at 1 January 2018

Except as described below, the accounting policies applied in these consolidated financial statements are the same as those applied in the last annual financial statements as at and for the year ended 31 December 2017. The Group has adopted IFRS 15 "Revenue from contracts with customers" and IFRS 9 - "Financial instruments" for the first-time effective 1 January 2018.

Initial impact of applying the above described standards is:

1. Revenue presentation.
2. Increase in credit losses in value of receivables recognized as financial assets.
3. Reclassification of credit losses in value of receivables in a separate line item and separate them from selling and marketing expenses in the consolidated statement of profit or loss.
4. Presentation of available-for-sale investments as investment in equity instruments at fair value through other comprehensive income.

a) IFRS 15 – "Revenue from contracts with customers"

This IFRS establishes a comprehensive framework for determining the amount and timing of revenue recognition. This standard supersedes IAS 11 "Construction contracts" and IAS 18 "Revenue".

When control of services provided is transferred to the customer over time, the Group meets the performance obligation and recognizes the revenue over a period of time as the customer receives and consumes the benefits of the Group's performance at the same time as the Group provides the service and confirmed from the customer which is in accordance with the requirements of IFRS 15 "Revenue from contracts with customers". Accordingly, there is no significant impact on the application of IFRS 15 "Revenue from contracts with customers" on revenue recognition of the Group.

The following are details of significant new accounting policies and the nature of changes in previous accounting policies with respect to the Group's revenues:

| Revenue | Nature and timing of satisfying performance obligation and significant payment terms | Nature of change in accounting policy |
|--|---|---|
| Revenue from training, education and communications centers. | The control of services provided is transferred to the customer over time, the Group meets the performance obligation and recognizes the revenue over a period of time as the customer receives and consumes the benefits of the Group's performance obligation at the same time as the Group provides the service and confirmed from the customer. | In accordance with IAS 18 Revenue from contracts with customers is recognized when the service is rendered and confirmed from the customer. |

The Group has adopted the IFRS 15 "Revenue from contracts with customers" retrospectively with recognizing cumulative effect of the initial application as of 1 January 2018. Accordingly, the information provided for the previous year has not been adjusted which is previously reported in accordance with IAS 18 and its related interpretations. There is no impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2018

3. NEW STANDARDS, AMENDMENTS AND STANDARDS ISSUED AND NOT YET EFFECTIVE (CONTINUED)

3-2 New standards adopted as at 1 January 2018 (Continued)

b) IFRS 9 – “Financial instruments”

This standard specifies the requirements of recognition and measurement of financial assets and liabilities and certain purchase / sale contracts of non-financial items. This standard supersedes IAS 39 “Financial instruments” - “recognition and measurement”.

The following are the details of significant new accounting policies and nature of changes in previous accounting policies:

Classification and measurement of financial assets and financial liabilities

IFRS 9 retains substantially the current requirements of IAS 39 for the purpose of classifying and measuring financial liabilities, however, it excludes the categories previously stated in IAS 39 relating to held-to-maturity assets, loans, advances and financial assets available for sale.

The adoption of IFRS 9 will not have a significant impact on the Group's accounting policies of financial liabilities. The impact of IFRS 9 adoption on the classification and measurement of financial assets is as follows:

In accordance with IFRS 9, on initial recognition, financial assets are classified as financial assets measured at amortized cost or at fair value through other comprehensive income - investments in debt instruments or at fair value through other comprehensive income - equity instruments, or at fair value through profit or loss. The classification of financial assets in accordance with IFRS 9 is usually based on the business model by which the financial asset is managed and the characteristics of its contractual cash flows.

Financial assets are measured at amortized cost if both two conditions are met and are not designated at fair value through profit or loss:

- a. Retained in the business model intended to hold assets for collection of contractual cash flows.
- b. Their contractual periods are established on specific dates for cash flows that represent only payments of principal and interest on principal of outstanding amount.

Investments in debt instruments are measured at fair value through other comprehensive income if both two conditions are met and are not designated at fair value through profit or loss:

- a. Retained in the business model intended to hold assets for collection of contractual cash flows and selling of financial assets.
- b. Their contractual periods are established on specific dates for cash flows that represent only payments of principal and interest on principal of outstanding amount.

Upon initial recognition of investments in equity instruments not held for trading, the Group has the right to choose ultimately to present subsequent changes in fair value of the investment in other comprehensive income. This option is made on each investment separately.

All financial assets that are not carried at amortized cost or at fair value through other comprehensive income, as described above, are measured at fair value through profit or loss. This includes all derivative financial assets. At initial recognition, the Group is entitled to classify assets which meets in other respects the measurement requirements at amortized cost or at fair value through other comprehensive income, as financial assets at fair value through profit or loss, and if done so, eliminate non-accounting mismatches that may arise otherwise or reduced dramatically.

Initial measurement of financial assets (unless a trade receivable is not initially a financial component initially measured at the transaction price) is measured at fair value, for the unquoted item at fair value through profit or loss, in addition to the transaction costs that are directly attributable to the acquisition.

AL KHALEEJ TRAINING AND EDUCATION COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2018

3. NEW STANDARDS, AMENDMENTS AND STANDARDS ISSUED AND NOT YET EFFECTIVE (CONTINUED)

3-2 New standards adopted as at 1 January 2018 (Continued)

b) IFRS 9 – “Financial instruments” (Continued)

The following accounting policies are applied to the subsequent measurement of financial assets:

| Financial instrument | Measurement |
|--|---|
| Financial assets at fair value through profit or loss | Subsequent measurement of these assets is normally measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. |
| Financial assets at amortized cost | Subsequent measurement of these assets is carried at amortized cost using the effective interest method. Amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognized in profit or loss. Any gain or loss is recognized in profit or loss. |
| Investments in debt instruments at fair value through other comprehensive income | Subsequent measurement of these assets is carried at fair value. Interest income, which is calculated using the effective interest method, as well as foreign exchange gains and losses and impairment, is recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. Upon discontinuation of the evidence, the cumulative gains and losses in other comprehensive income are reclassified to profit or loss. |
| Investments in equity instruments at fair value through other comprehensive income | Subsequent measurement of these assets is carried at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents the recovery of part of the cost of the investment. Other gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss. |

The following table and accompanying notes present the previous measurement categories in accordance with IAS 39 as well as the new measurement categories in accordance with IFRS 9 of the Group's financial assets category as of 1 January 2018:

| | Notes | Classification (IAS 39) | Classification (IFRS 9) | Carrying amount (IAS 39) SR | Carrying amount (IFRS9) SR |
|---|-------|-------------------------------|---|--------------------------------------|-------------------------------------|
| Financial Assets | | | | | |
| Investment in equity | i | Available for sale investment | Equity instruments at fair value through other comprehensive income | 18,759,045 | 18,759,045 |
| Trade accounts receivable and unbilled revenues | ii | Debts and facilities | Amortized cost | 306,709,242 | 306,709,242 |
| Cash and bank balances | | Debts and facilities | Amortized cost | 26,307,843 | 26,307,843 |
| | | | | <u>351,776,130</u> | <u>351,776,130</u> |

i. This investment represents what the Group intends to maintain over the long-term for strategic purposes. As permitted under IFRS 9, the Group has classified and measured this investment as at 1 January 2018 at fair value through other comprehensive income

ii. Receivables and unbilled revenues classified as debts and facilities under IAS 39 are currently classified at amortized cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2018

3. NEW STANDARDS, AMENDMENTS AND STANDARDS ISSUED AND NOT YET EFFECTIVE (CONTINUED)

3-2 New standards adopted as at 1 January 2018 (Continued)

b) IFRS 9 – "Financial instruments" (Continued)

Impairment of financial assets

IFRS 9 replaces the "loss incurred" model in IAS 39 with the "expected credit loss" model. The new model is applied to financial assets measured at amortized cost, contract assets and investments in debt instruments at fair value through other comprehensive income and not investments in equity instruments. In accordance with IFRS 9, previously recognized credit losses are recognized in accordance with IAS 39.

Credit impaired financial assets

At each reporting date, the Group assesses whether the financial assets carried at amortized cost have an impaired credit value. A financial asset is considered to be "impaired" when one or more events have had an adverse effect on the estimated future cash flows of the financial asset.

Impairment presentation

Loss provisions for financial assets measured at amortized cost are deducted from the carrying amount of the asset.

Impairment losses on receivables are presented separately in the consolidated statement of profit or loss. Accordingly, the Group has reclassified the impairment losses to SAR 1,540,914 recognized in accordance with IAS 39 as "selling and marketing expenses" To "impairment of other financial assets" in the consolidated statement of profit or loss for the year ended 31 December 2017.

c) Conversion

The Group has applied an exemption allowing it not to modify comparative figures for prior periods in respect of changes in classification and measurement (including impairment). Differences in the carrying amounts of financial assets and financial liabilities arising from the application of IFRS 9 are not recognized in retained earnings as at 1 January 2018, due to that the amounts are insignificant. Accordingly, the information presented for the year 2017 does not generally reflect the requirements of IFRS 9 but rather discloses IAS 39.

The following assessment was made on the basis of the facts and circumstances as at 1 January 2018:

- a. Defines the business model in which the financial assets are held.
- b. Defining and canceling the prior designation of certain financial assets.
- c. Classification of certain investments in equity instruments that are not held for trading at fair value through other comprehensive income.

As disclosed above, followed with transition impact within the note, the Group has adopted IFRS 9 effective from 1 January 2018, resulting change in its impairment model of incurred loss under IAS 39 to expected loss model as required by IFRS 9. However, the change in provision for impairment was not recognized on the opening retained earnings at 1 January 2018 on transition to IFRS 9 as the amount of change was not material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2018

3. NEW STANDARDS, AMENDMENTS AND STANDARDS ISSUED AND NOT YET EFFECTIVE
(CONTINUED)

3-2 New standards adopted as at 1 January 2018 (Continued)

c) Conversion (Continued)

Financial instruments

Financial assets and financial liabilities are recognized when a Group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including trade and other receivables, bank balances and cash are measured at amortized cost using the effective interest method, less any impairment loss which is recognized in profit or loss.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting date. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2018

3. NEW STANDARDS, AMENDMENTS AND STANDARDS ISSUED AND NOT YET EFFECTIVE
(CONTINUED)

3-2 New standards adopted as at 1 January 2018 (Continued)

c) Conversion (Continued)

For certain categories of financial assets, such as receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period granted, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On de-recognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2018

3. NEW STANDARDS, AMENDMENTS AND STANDARDS ISSUED AND NOT YET EFFECTIVE
(CONTINUED)

3-2 New standards adopted as at 1 January 2018 (Continued)

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are initially and subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

De-recognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

4. SIGNIFICANT ACCOUNTING POLICIES

Segment information

The segmental information is attributable to the Group's activities and business as approved by the Group management to be used as a basis for the financial reporting and consistent with the internal reporting process.

The segment results and assets comprise items that are directly attributable to certain segment and items that can reasonably be allocated between business segments.

The Group is organized into following main business segments:

1- **Computer**

Serves individual and corporate segments. Individual segment incorporates training courses with period from three months to two years diploma corporate segment incorporates all advanced programming, networking and computer solutions. The Group follows the global methodology of New Horizon Company, of which the Group owns the franchise in the middle east region.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Segment information (Continued)

2- Language

Provides training courses in English language, consisting of 6 levels. The courses are held over a period of 2 to 14 months. The Group follows the global methodology of Direct English Company, of which the Group owns the franchise in the middle east region.

3- Educational projects

This segment represents the educational projects related to universities and the Ministry of Education, including operating the orientation years for several Saudi universities. These projects are focused on providing the academic staff for the orientation years according to scientific basis and standards set by the universities and managing these human resources for the universities.

4- Financial and management training

This segment aims to provide trainees with information and various skills and up-to-date methods in relation to their jobs, and to improve and develop their abilities and skills. This includes development courses in management, leadership, stock trading and others, improving their efficiency and productivity through international certifications.

5- Communication centers

This segment provides management and operating services of customer services centers via telephone for a number of companies and bodies.

6- Schools

This segment is engaged in incorporating private educational schools for (boys/girls) inside the Kingdom of Saudi Arabia.

Revenues

Revenues arises mainly from providing training courses, school fees, communication service centers and education projects related to universities.

The control of services provided is transferred to the client over time, the Group meets the performance obligation and recognizes the revenues over a period of time as the customer receives and consumes the benefits of the Group's performance obligation at the same time as the Group provides the service and confirmed from the customer.

To determine whether to recognize revenue, the group follows a 5 steps process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligation
5. Recognizing revenue as performance obligations are satisfied

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (excluding goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development cost, are not capitalized and expenditure is reflected in the consolidated statement of profit or loss in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting date.

Intangible assets with indefinite useful lives are not amortized 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 de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of profit and loss when the asset is derecognized.

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 amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of profit and loss in the expense category consistent with the function of the intangible asset.

Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. Goodwill is carried at cost less impairment losses.

Property and equipment

Land

Land held for use in production and administration is stated at cost. As no finite useful life for land can be determined, related carrying amounts are not depreciated.

Buildings, furniture and other equipment

All other assets are recognized initially at acquisition cost, including any costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by the Group's management. These assets are subsequently measured at cost less accumulated depreciation and accumulated impairment losses if any.

Depreciation is recognized on a straight-line basis to write down the cost less estimated residual value of the buildings, furniture and other equipment. The following useful lives are applied:

| <u>Description</u> | <u>Years</u> |
|---------------------------------------|------------------------------|
| Buildings | 15-50 |
| Furniture, office equipment and tools | 4-9 |
| Leasehold improvement | 15 or less of the lease term |
| Vehicles | 7 |
| Assets acquired under capital leases | 20 |

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in the consolidated statement of profit or loss within other income or other expenses.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leased assets

Management applies judgment in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Group obtains ownership of the asset at the end of the lease term.

Finance leases are capitalized at the present value of the minimum lease payments at the inception of the lease term and are disclosed as "assets held under finance leases" under property and equipment. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the consolidated statement of profit and loss. Capitalized leased assets are depreciated over the lower of lease term or assets estimated useful life.

Operating lease, where the Group is a lessee, payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term.

Inventories

Inventories comprise mainly books and educational curriculums distributed during courses. Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expense.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments maturing with 90 days from the date of acquisition that are readily convertible to cash, and which are subject to an insignificant risk of change in value.

Equity, reserves and dividend payments

Share Capital

Share Capital represents the nominal value of shares that have been issued. The Company's capital consists of 45 Million shares as at 31 Dec 2018 (31 December 2017: 40 Million shares) of SR 10 each.

Statutory reserve

In accordance with Saudi Arabian Regulations for Companies, the Company must set aside 10% of its net profit for the year till it has built up a reserve equal to 30% of the capital.

Foreign currency translation reserve

Foreign currency translation reserve used to convert the results of a parent Company's foreign subsidiaries to its reporting currency. This is a key part of the financial statement consolidation process.

Retained earnings

Retained earnings includes of all current and prior period retained profits.

Dividend payments

Cash or non-cash dividends to shareholders of the parent company are recognized as a liability when the distribution is approved. According to the Regulations for Companies in the Kingdom of Saudi Arabia, dividends are approved upon approval by shareholders. The dividend amount is directly deducted from equity and recognized as a liability.

Non-monetary dividends, if any, are measured at the fair value of the assets to be allocated and the fair value re-measurement is recognized directly in equity. When a non-cash asset is distributed, any difference between the carrying amount of the liability and the carrying amount of the asset is recognized in the consolidated statement of profit and loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employees end of service benefits

The Group operates a single post-employment benefit scheme of defined benefit plan driven by the labor laws and workman laws of the Kingdom of Saudi Arabia which is based on most recent salary and number of service years.

The post-employment benefits plans are not funded. Accordingly, valuations of the obligations under the plan are carried out by an independent actuary based on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits are recognized immediately in profit or loss while unwinding of the liability at discount rates used are recorded in profit or loss. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in the other comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly in other comprehensive income and transferred to retained earnings in the consolidated statement of changes in equity in the period in which they occur.

Changes in the present value of the defined benefit obligations resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Saudi Arabia.

Provisions, contingent assets and contingent liabilities

Provision for warranties, legal disputes, onerous contracts or other claims are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. The timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Group is virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

No liability is recognised if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

Zakat and income tax

Zakat and income tax provision is calculated in accordance with the regulations of the General Authority of Zakat and income tax in the Kingdom of Saudi Arabia. Any differences in the estimate are recorded in the consolidated statement of profit or loss when the final assessment is approved, at which time the provision is cleared.

Overseas subsidiaries provide for income tax liabilities, if any, in accordance with the regulations of the countries in which they operate. Zakat and income tax provision is charged to the consolidated statement of profit or loss.

Foreign currency transaction and balances

Foreign currency transactions are translated into Saudi Riyals entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items denominated in foreign currency at year-end exchange rates are recognized in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency transaction and balances (Continued)

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Significant management judgment in applying accounting policies and estimation uncertainty

When preparing the consolidated financial statements, management makes a number of judgments, estimates and assumptions about the recognition and measurements of assets, liabilities, income and expenses.

Information about estimates and assumptions that may have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

a) Provision for employees end of service benefits

Management's estimate of the end of service benefits is based on a number of critical underlying assumptions such as anticipation of future salary increases, and discount rate used to convert future values. Variation in these assumptions may significantly impact the provision for end of service benefits and the expense.

b) Provision

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

c) Useful lives of depreciable assets

Management reviews its estimates of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets of the assets. Uncertainties in these estimates relates to technological obsolescence that may change utility of assets.

d) Impairment of financial assets

A provision for impairment in financial assets is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the agreement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators of objective evidence that the trade receivable is impaired. For significant individual amounts, assessment is made on an individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering past recovery rates.

e) Impairment of non-financial assets and goodwill

In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit based on expected future cash flows and uses the interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

f) Inventories provision

The management makes a provision for slow moving and obsolete inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made and provide a provision for slow moving and obsolete inventory.

g) Business combinations

Management uses valuation techniques when determining the fair values of certain assets and liabilities acquired in a business combination. In particular, the fair value of contingent consideration is dependent on the outcome of many variables including the acquirees' future profitability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant management judgment in applying accounting policies and estimation uncertainty (Continued)

h) Fair value measurements

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available). This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumption on observable data as far as possible, but this is not always available. In that case management used the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

i) Classification of investments

On acquisition of an investment, management has to decide whether it should be classified as "at fair value through profit or loss", "available for sale" or as "loans and receivables" in making that judgment, the Group considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgment determines whether it is subsequently measured at cost or at fair value and if the changes in fair value of instruments are reported in the statement of profit or loss or directly in equity.

5. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

| | 31 December 2018 SR | 31 December 2017 SR |
|-----------------------------------|---------------------------|---------------------------|
| Goodwill (a) | 32,525,652 | 33,229,711 |
| Franchise rights and software (b) | 7,204,945 | 5,483,423 |
| | <u>39,730,597</u> | <u>38,713,134</u> |

a) Goodwill

Goodwill is tested for impairment annually by management. According to the impairment test conducted by the management as of 31 December 2018, the carrying amount of the goodwill is less than its recoverable amount, except for the goodwill of Franklin Covey's subsidiaries, which was reduced by SR 204,060 during the year (31 December 2017: SR 326,486) and Linguaphone, which was reduced by SR 500,000 during the year (31 December 2017: SR nil). The recoverable amount is determined based on the present value based on the expected cash flows generated in the future financial budget approved by the Group's management.

b) Franchise rights and software

The franchise is amortized over a period of 10 years. The movement during the year is as follows:

| | 31 December 2018 SR | 31 December 2017 SR |
|----------------------------------|---------------------------|---------------------------|
| Cost: | | |
| At the beginning of the year | 14,821,350 | 13,624,380 |
| Additions | 2,180,391 | 1,196,970 |
| At the end of the year | <u>17,001,741</u> | <u>14,821,350</u> |
| Accumulated amortization: | | |
| At the beginning of the year | 9,337,927 | 8,950,777 |
| Additions | 458,869 | 387,150 |
| At the end of the year | <u>9,796,796</u> | <u>9,337,927</u> |
| Net book value | <u>7,204,945</u> | <u>5,483,423</u> |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2018

6. PROPERTY AND EQUIPMENT, NET

| | * Lands | Buildings | | Furniture, office equipment and tools | | Leasehold improvement | | Vehicles | | Assets held under capital leases | | Construction work in progress | | Total | |
|----------------------------------|-------------|-------------|-------------|--|------------|--------------------------|-------------|---------------|----|--|----|-------------------------------------|----|-------|----|
| | SR | SR | SR | SR | SR | SR | SR | SR | SR | SR | SR | SR | SR | SR | SR |
| <u>Cost:</u> | | | | | | | | | | | | | | | |
| At the beginning of the year | 107,876,195 | 360,469,677 | 167,402,780 | 191,177,896 | 12,335,747 | 73,341,213 | 112,924,679 | 1,025,528,187 | | | | | | | |
| Additions | 1,046,550 | 9,546,108 | 8,840,850 | 2,645,294 | --- | --- | 14,117,346 | 36,196,148 | | | | | | | |
| Disposal | --- | (118,200) | (418) | --- | (75,056) | --- | --- | (193,674) | | | | | | | |
| Transfers | --- | 5,197,777 | --- | --- | --- | --- | (5,197,777) | --- | | | | | | | |
| At the end of the year | 108,922,745 | 375,095,362 | 176,243,212 | 193,823,190 | 12,260,691 | 73,341,213 | 121,844,248 | 1,061,530,661 | | | | | | | |
| <u>Accumulated depreciation:</u> | | | | | | | | | | | | | | | |
| At the beginning of the year | --- | 32,052,702 | 102,445,648 | 81,072,815 | 11,151,142 | 6,086,903 | --- | 232,809,210 | | | | | | | |
| Depreciation of the year | --- | 8,979,200 | 8,043,041 | 757,329 | 242,711 | 3,689,495 | --- | 21,711,776 | | | | | | | |
| Disposals | --- | --- | (418) | --- | (75,056) | --- | --- | (75,474) | | | | | | | |
| At the end of the year | --- | 41,031,902 | 110,488,271 | 81,830,144 | 11,318,797 | 9,776,398 | --- | 254,445,512 | | | | | | | |
| <u>Net book value:</u> | | | | | | | | | | | | | | | |
| At 31 December 2018 | 108,922,745 | 334,063,460 | 65,754,941 | 111,993,046 | 941,894 | 63,564,815 | 121,844,248 | 807,085,149 | | | | | | | |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2018

6. PROPERTY AND EQUIPMENT, NET (CONTINUED)

| | * Lands | Buildings | Furniture, office equipment and tools | Leasehold improvement | Vehicles | Assets held under capital leases | Construction work in progress | Total |
|---------------------------------|-------------|-------------|--|--------------------------|------------|--|-------------------------------------|---------------|
| | SR | SR | SR | SR | SR | SR | SR | SR |
| <u>Cost:</u> | | | | | | | | |
| At the beginning of the year | 107,876,195 | 340,969,066 | 134,838,425 | 160,321,012 | 12,419,410 | 72,064,713 | 62,253,751 | 890,742,572 |
| Additions | -- | 19,500,611 | 19,159,961 | 12,543,155 | 69,378 | 1,276,500 | 50,670,928 | 103,220,533 |
| Disposal | -- | -- | (3,367,987) | (10,229) | (153,041) | -- | -- | (3,531,257) |
| Transfers | -- | -- | 16,772,381 | 18,323,958 | -- | -- | -- | 35,096,339 |
| At the end of the year | 107,876,195 | 360,469,677 | 167,402,780 | 191,177,896 | 12,335,747 | 73,341,213 | 112,924,679 | 1,025,528,187 |
| <u>Accumulated depreciation</u> | | | | | | | | |
| At the beginning of the year | -- | 25,746,480 | 93,794,671 | 75,010,795 | 11,082,211 | 3,179,580 | -- | 208,813,737 |
| Depreciation of the year | -- | 6,306,222 | 10,040,355 | 6,072,249 | 221,972 | 2,907,323 | -- | 25,548,121 |
| Disposals | -- | -- | (1,389,378) | (10,229) | (153,041) | -- | -- | (1,552,648) |
| At the end of the year | -- | 32,052,702 | 102,445,648 | 81,072,815 | 11,151,142 | 6,086,903 | -- | 232,809,210 |
| <u>Net book value:</u> | | | | | | | | |
| At 31 December 2017 | 107,876,195 | 328,416,975 | 64,957,132 | 110,105,081 | 1,184,605 | 67,254,310 | 112,924,679 | 792,718,977 |

* Certain land parcels were pledged with several local banks against long-term loans (note 14).

Depreciation charge for the year has been allocated as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---------------------|---------------------|
| | SR | SR |
| Direct costs | 20,523,148 | 22,715,921 |
| General and administrative expenses (note 20) | 1,188,628 | 2,832,200 |
| | 21,711,776 | 25,548,121 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2018

7. INVESTMENT IN EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The balance of investments in equity instruments at fair value through other comprehensive income as at 31 December 2018 represents the 14.7% (5,000 share) stake in NWHW Holdings Inc, a company registered in Delaware, USA. No dividends were received during the year ended 31 December 2018 and 2017.

| | <u>31 December 2018</u> | <u>31 December 2017</u> |
|----------------------|-----------------------------|-----------------------------|
| | SR | SR |
| At 1 January | 18,759,045 | 18,759,045 |
| Change in fair value | 171,143 | --- |
| At 31 December | <u>18,930,188</u> | <u>18,759,045</u> |

The fair value has been determined based on the lowest level of significant inputs used in fair value measurement, as inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly and observable market data.

The Group has used most recent valuation report as at 31 December 2017, which has been prepared solely to determine the fair value of NWHW's common stock, on a non-marketable minority interest basis.

8. CASH AND CASH EQUIVALENT

| | <u>31 December 2018</u> | <u>31 December 2017</u> |
|-------------------|-----------------------------|-----------------------------|
| | SR | SR |
| Balances at banks | 34,721,784 | 21,152,029 |
| Cash in hand | 3,743,243 | 5,155,814 |
| | <u>38,465,027</u> | <u>26,307,843</u> |

9. ACCOUNTS RECEIVABLE, NET

| | <u>31 December 2018</u> | <u>31 December 2017</u> |
|--|-----------------------------|-----------------------------|
| | SR | SR |
| Trade receivables | 355,625,792 | 316,629,605 |
| Allowance for impairment of other financial assets | (20,529,207) | (14,762,386) |
| Total | <u>335,096,585</u> | <u>301,867,219</u> |

Included in trade accounts receivable are amounts totaling SR 291 million (31 December 2017: SR 295 million) due from government and quasi-government institution. The management believes the wholly collectability of these amounts. In the estimation of the Group's management, it is expected that uncollectible receivables will be collected.

The Group does not obtain guarantees or collateral as security against these receivables.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2018

9. ACCOUNTS RECEIVABLE, NET (CONTINUED)

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of revenues over a period of 3 months before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Movements in the allowance of impairment of other financial assets were as follows:

| | 31 December 2018 | 31 December 2017 |
|-------------------------------------|-----------------------------|-----------------------------|
| | SR | SR |
| Balance at 1 January | 14,762,386 | 10,313,354 |
| Charge for the year | 8,506,090 | 9,562,061 |
| Amounts written off during the year | (2,739,269) | (5,113,029) |
| | 20,529,207 | 14,762,386 |

The ageing analysis of these trade receivable is as follows:

| | 31 December 2018 | 31 December 2017 |
|---------------------------|-----------------------------|-----------------------------|
| | SR | SR |
| Past due but not impaired | 156,666,697 | 177,547,904 |
| 4 to 6 months | 69,045,033 | 45,036,277 |
| 7 to 12 months | 55,634,019 | 33,341,335 |
| 1 to 2 years | 31,032,411 | 21,097,181 |
| Over 2 years | 43,247,632 | 39,606,908 |
| | 355,625,792 | 316,629,605 |

10. OTHER CURRENT ASSETS

| | 31 December 2018 | 31 December 2017 |
|-----------------------|-----------------------------|-----------------------------|
| | SR | SR |
| Prepaid expenses | 55,536,442 | 52,268,745 |
| Employees receivables | 4,361,954 | 4,794,646 |
| Refundable deposits | 1,775,701 | 1,855,055 |
| Other receivables | 7,576,370 | 6,637,911 |
| | 69,250,467 | 65,556,357 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2018

11. INVENTORY, NET

Inventory comprise mainly books and educational curriculums distributed during courses.

| | 31 December 2018 | 31 December 2017 |
|--|---------------------|---------------------|
| | SR | SR |
| Inventories | 14,077,632 | 14,764,476 |
| Provision for obsolete and slow-moving inventory | (774,209) | (774,209) |
| Total | 13,303,423 | 13,990,267 |

Movement in provision for inventory obsolescence is as follows:

| | 31 December 2018 | 31 December 2017 |
|--------------------------|---------------------|---------------------|
| | SR | SR |
| At 1 January | 774,209 | --- |
| Provided during the year | --- | 857,095 |
| Write off | --- | (82,886) |
| At 31 December | 774,209 | 774,209 |

12. RELATED PARTIES TRANSACTIONS AND BALANCES

Related parties of the Group include shareholders, Board of Directors, key management personnel and entities of which they are principal owners.

The terms of the transactions with related parties are approved by the Group's management. Transactions with related parties are entered in the normal course of the Group's business. These balances are expected to be settled in the normal course of business. Pricing policies and terms of these transactions are at arm's length.

The Group's related parties' transactions and balances are as follows:

Related parties' transactions:

| <u>Related party</u> | <u>Nature of transactions</u> | 31 December 2018 | 31 December 2017 |
|------------------------------------|-------------------------------|---------------------|---------------------|
| | | SR | SR |
| Companies owned by directors | Rent as lessee | 945,000 | 1,080,000 |
| | Rent as lessor | 2,866,000 | 2,866,000 |
| <u>Key management remuneration</u> | | | |
| Board of directors | Bonuses | 900,000 | 900,000 |
| | Allowances | 89,625 | 87,875 |
| <i>Short-term benefits:</i> | | | |
| Salaries including bonuses | Salaries and bonuses | 12,448,651 | 10,713,244 |
| <i>Post-employment benefits:</i> | | | |
| Termination benefits | End of service | 5,446,951 | 5,650,575 |

Related parties' balances:

| | 31 December 2018 | 31 December 2017 |
|------------------------------------|---------------------|---------------------|
| | SR | SR |
| a. Due from related parties | | |
| Companies owned by directors | 415,405 | 1,746,629 |
| b. Due to related parties | | |
| Companies owned by directors | 1,968,594 | 295,157 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2018

12. RELATED PARTIES TRANSACTIONS AND BALANCES (CONTINUED)

Balances due at the end of each year are unsecured and do not bear commissions and are settled in cash.

There are no guarantees from or to the related parties. For the year ended 31 December 2018, the Group has not recorded any impairment loss on amounts due from related parties. Valuation of impairment is performed every financial year by examining the financial position of the related entity and the market in which the entity is involved.

13. SHARE CAPITAL

The Company's capital consists of 45 Million shares as at 31 December 2018 (31 December 2017: 40 Million shares) of SR 10 each.

14. TERM LOANS

The Group obtained long-term and short-term loans from several local banks to finance the Group's projects and build buildings for educational establishments during the year. The loans are charged by a commission equal to the inter-bank lending rate (SAIBOR). All loans are secured by order bonds, personal guarantees from some of the major shareholders and the pledge of part of the Group's land to the banks. The agreements also included conditions regarding the Group's commitment to some financial ratios and conditions.

| | Riyadh Bank | Arab National Bank | Saudi British Bank | Al Rajhi Bank | National Commercial Bank | Banque Saudi Fransi | Total |
|-------------------------|-------------------|--------------------------|-----------------------|-------------------|--------------------------------|------------------------|--------------------|
| | SR | SR | SR | SR | SR | SR | SR |
| 31 December 2018 | | | | | | | |
| Short-term | 77,206,428 | 105,000,000 | 8,000,000 | 20,000,000 | 20,000,000 | 59,252,574 | 289,459,002 |
| Long-term: | | | | | | | |
| Current | --- | 41,120,000 | --- | 3,596,619 | --- | --- | 44,716,619 |
| Non current | --- | 112,861,000 | --- | 23,966,670 | --- | --- | 136,827,670 |
| | --- | 153,981,000 | --- | 27,563,289 | --- | --- | 181,544,289 |
| Total | 77,206,428 | 258,981,000 | 8,000,000 | 47,563,289 | 20,000,000 | 59,252,574 | 471,003,291 |
| 31 December 2017 | | | | | | | |
| Short-term | 65,000,000 | 78,000,000 | 8,000,000 | 20,000,000 | 20,000,000 | 21,400,000 | 212,400,000 |
| Long-term: | | | | | | | |
| Current | 3,000,000 | 24,000,000 | --- | 7,581,703 | --- | --- | 34,581,703 |
| Non current | --- | 153,962,000 | --- | 27,563,288 | --- | --- | 181,525,288 |
| | 3,000,000 | 177,962,000 | --- | 35,144,991 | --- | --- | 216,106,991 |
| Total | 68,000,000 | 255,962,000 | 8,000,000 | 55,144,991 | 20,000,000 | 21,400,000 | 428,506,991 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2018

15. LEASES

Finance leases

The obligations resulting from the acquisition of assets through finance leases, and consists of the following:

- a) Leased computers from 3 to 4 years.
- b) Leased building through sale and lease back. As the Group has completed, on 15 September 2015, the sale of a newly constructed management building in Al-Ghadeer area in Riyadh, the cost of which is approximately SR 58.9 million, to Manafe' Holding Company, at a selling price of SR 75 million, in order to finance the Group's expansion in educational projects. The Group then leased back the building for 20 years ending in the year 2034. Gain from the sale transaction, amounting to approximately SAR 16 million, was deferred in accordance with the requirements of the International Financial Reporting Standards, and will be recognized in subsequent periods in correlation with depreciation as the leaseback was classified as a finance lease. During the year 2016 the rental value of the land for the building was separated and classified as an operating lease (with present value of SR 48.7 million). In the interim condensed consolidated statement of profit or loss the Group recognized an amount of SR 803,748 as gain from sale of the building (31 December 2017: SR 803,748).
- c) Schools leased building in Dammam. on 25 August 2016 the Group has signed a contract with Mohammed Abdulaziz Al Rajhi & Sons Investment Group, to lease Al Ishraq Building Schools for 20 years. The building lease was classified as a finance lease (with present value SAR 17.8 million) and the rent land was classified as operating lease.

The following table represents the minimum lease payments for the years after the date of the consolidated financial position, and in total:

| | Computers SR | Buildings SR | Total SR |
|----------------|-----------------|--------------------|--------------------|
| 2019 | 762,936 | 5,330,440 | 6,093,376 |
| 2020 | 225,045 | 5,621,065 | 5,846,110 |
| 2021 | --- | 5,676,065 | 5,676,065 |
| 2022 | --- | 5,731,065 | 5,731,065 |
| 2023 and after | --- | 77,928,560 | 77,928,560 |
| Total | 987,981 | 100,287,195 | 101,275,176 |

Operating leases

Operating lease as lessee

Rent expenses related to operating rent expenses amounted to SR 36,932,288 within the year ended 31 December 2018. (31 December 2017: SR 34,188,968).

The minimum lease liability is SR 60,501,802 as of 31 December 2018 (31 December 2017: SR 61,361,116) including amounts for more than 12 months as of the consolidated statement of financial position date related to rent of a land used in building a building acquired by finance lease.

Operating lease as lessor

Operating rent income amounted to SR 4,259,687 were recognized in the consolidated statement of profit and loss during the year (31 December 2017: SR 3,082,162).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2018

16. EMPLOYEES' END OF SERVICE BENEFITS

The Group manages the end of service benefits program for its employees in accordance with the requirements of the labor law in the Kingdom of Saudi Arabia.

The movement in the provision for employees' end of service benefits for the year is based on actuarial assumptions:

| | 31 December 2018 SR | 31 December 2017 SR |
|--------------------------------|---------------------------|---------------------------|
| Balance at 1 January | 47,515,089 | 43,801,134 |
| Cost of service and interest | 14,970,833 | 13,501,899 |
| Actuarial loss | 1,349,000 | --- |
| Paid during the year | (9,869,435) | (9,787,944) |
| | <u>53,965,487</u> | <u>47,515,089</u> |
| <i>Actuarial assumptions</i> | | |
| | 31 December 2018 SR | 31 December 2017 SR |
| <u>Financial assumptions</u> | | |
| Discount rate | 5.40% | 3.55% |
| Salary increase rate | 1.97% | 1.97% |
| <u>Demographic assumptions</u> | | |
| Employee turnover rate | 25% | 25% |
| <i>Sensitivity analysis</i> | | |
| | 31 December 2018 SR | |
| Discount rate +1% | (47,718,000) | |
| Discount rate -1% | (54,563,000) | |
| Salary increase rate +1% | (54,653,000) | |
| Salary increase rate -1% | (47,585,000) | |
| Employee turnover rate +1% | (51,218,000) | |
| Employee turnover rate -1% | (50,493,000) | |

No actuarial assessment was performed for the year ended 31 December 2017, as the difference between employees end of services benefits according to the Saudi law and the present value of end of service obligation according to the valuation of external actuary was deemed immaterial considering the effect of discount rate, expected and future increases in salaries.

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17. TRADE AND OTHER PAYABLES

| | 31 December 2018 | 31 December 2017 |
|-------------------------|-----------------------------|-----------------------------|
| | SR | SR |
| Trade payable | 11,527,814 | 13,271,446 |
| Accrued expenses | 48,791,655 | 31,626,576 |
| Advances from customers | 16,151,570 | 10,895,005 |
| Other credit balances | 5,847,501 | 5,568,256 |
| | 82,318,540 | 61,361,283 |

18. ZAKAT AND INCOME TAX PAYABLE

- a) The Group's zakat expense for the year amounted SR 1,317,563 (31 December 2017: SR 2,000,000) is the Zakat payable of Al Khaleej Training and Education Company. Zakat provision for the year is calculated according to the following basis:

| | 31 December 2018 | 31 December 2017 |
|---|-----------------------------|-----------------------------|
| | SR | SR |
| Equity | 543,187,776 | 506,349,066 |
| Opening provisions, loans and other adjustments | 428,506,991 | 338,969,283 |
| The carrying amount of long-term assets | (961,064,772) | (828,518,400) |
| | 10,629,995 | 16,799,949 |
| Profit for the year subject to zakat | 44,170,463 | 63,179,115 |
| Zakat bases | 54,800,458 | 79,979,064 |

The differences between the financial and zakat results are mainly due to the allowance that is not permitted when calculating the income subject to zakat.

- b) The Zakat movement during the year ended 31 December was as follows:

| | 31 December 2018 | 31 December 2017 |
|------------------------------|-----------------------------|-----------------------------|
| | SR | SR |
| At the beginning of the year | 16,278,615 | 16,656,415 |
| Charge for the year | 1,317,563 | 2,000,000 |
| Paid during the year | (14,865,092) | (2,377,800) |
| At the end of the year | 2,731,086 | 16,278,615 |

- c) The Group had submitted its consolidated zakat declarations for all years up to 2017 and paid zakat obligations accordingly. The zakat was approved by the General Authority of Zakat and Income Tax (GAZT) for all years until 2006. Consequently, GAZT reviewed the Groups' declarations for the years from 2007 to 2014, resulting in a final assessment of SR 12,892,229. The amount was paid during the year 2018, however, the Group is still in disagreement with GAZT on an amount of SR 2,862,337. The Zakat declarations for the years 2015, 2016 and 2017 are still under review by the GAZT.

The Group has obtained zakat certificate valid until 25 Sha'aban 1440H (corresponding to 30 April 2019 G).

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19. SELLING AND MARKETING EXPENSES

| | 31 December 2018 | 31 December 2017 |
|--------------------------|---------------------|---------------------|
| | SR | SR |
| Staff cost | 27,978,219 | 29,311,538 |
| Advertising | 8,065,231 | 9,559,687 |
| Rent | 2,070,740 | 2,068,500 |
| Printing and publication | 996,269 | 700,725 |
| Gifts | 549,956 | 749,936 |
| Other | 1,979,687 | 2,271,483 |
| | <u>41,640,102</u> | <u>44,661,869</u> |

20. GENERAL AND ADMINISTRATIVE EXPENSES

| | 31 December 2018 | 31 December 2017 |
|-------------------------------------|---------------------|----------------------------------|
| | SR | SR |
| Staff cost | 43,132,994 | (Restated note 30) 45,966,915 |
| Rent | 1,704,902 | 597,199 |
| Professional fees and consultations | 1,907,082 | 2,129,935 |
| depreciation (note 6) | 1,188,628 | 2,832,200 |
| Board of directors' compensation | 900,000 | 900,000 |
| Other | 1,266,357 | 3,905,093 |
| | <u>50,099,963</u> | <u>56,331,342</u> |

21. OTHER INCOME, NET

| | 31 December 2018 | 31 December 2017 |
|--|---------------------|---------------------|
| | SR | SR |
| Rental income | 4,529,687 | 3,082,162 |
| Gain on sale of property and equipment | 803,748 | 803,748 |
| Exchange rate loss | --- | (24,603) |
| Miscellaneous | 185,114 | 2,029,294 |
| | <u>5,518,549</u> | <u>5,890,601</u> |

22. CONTINGENCIES AND COMMITMENTS

Contingent liability

The Group's banks issued, on its behalf and during its normal course of business bank guarantees amounted to SR 102 million as at 31 December 2018 (31 December 2017: SR 115 million).

Capital commitment

The capital commitment as at the consolidated statement of financial position date represents the value of the non-performing portion of the capital contracts entered by the Group's schools and buildings amounted to SR 16 million (31 December 2017: SR 30 million).

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23. EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the year attributable to the shareholders of the Parent Company by the weighted average number of common shares during the year. Diluted earnings per share does not apply to the Group. Earnings per share from continuing operations is not presented because there are no discontinued operations during the year.

| | 31 December 2018 | 31 December 2017 |
|--|-----------------------------|-----------------------------|
| | SR | SR |
| | | (Restated note 30) |
| Profit for the year | 32,357,877 | 51,697,347 |
| Weighted average number of ordinary shares | 45,000,000 | 45,000,000 |
| Earnings per share | 0.72 | 1.15 |

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24. SEGMENT INFORMATION

| | <i>Computer</i> | <i>Language</i> | <i>Financial and management training</i> | <i>Schools</i> | <i>Communication center</i> | <i>Educational projects</i> | <i>Total</i> |
|------------------------------------|-----------------|-----------------|--|----------------|---------------------------------|---------------------------------|---------------|
| <u>31 December 2018</u> | <u>SR</u> | <u>SR</u> | <u>SR</u> | <u>SR</u> | <u>SR</u> | <u>SR</u> | <u>SR</u> |
| Revenue | 106,398,186 | 69,268,555 | 98,311,095 | 108,763,147 | 335,122,504 | 84,653,118 | 802,516,605 |
| Depreciation and amortization | 3,100,883 | 1,938,052 | 1,477,097 | 8,461,813 | 4,479,527 | 2,713,272 | 22,170,644 |
| Profit before zakat and income tax | 8,741,954 | 1,953,140 | 9,284,833 | (5,057,481) | 16,735,846 | 4,006,081 | 35,664,373 |
| Total assets | 246,756,711 | 123,378,355 | 51,899,789 | 618,901,626 | 281,284,996 | 15,422,294 | 1,337,643,771 |
| Total liabilities | 57,261,036 | 28,630,518 | 30,152,006 | 612,874,453 | 43,392,252 | 3,578,815 | 775,889,080 |
| Other: | | | | | | | |
| Capital expenditure | 7,641,358 | 3,925,460 | 952,045 | 15,916,014 | 6,549,898 | 1,211,373 | 36,196,148 |

| | <i>Computer</i> | <i>Language</i> | <i>Financial and management training</i> | <i>Schools</i> | <i>Communication center</i> | <i>Educational projects</i> | <i>Total</i> |
|--|-----------------|-----------------|--|----------------|---------------------------------|---------------------------------|---------------|
| <u>31 December 2017 (Restated note 30)</u> | <u>SR</u> | <u>SR</u> | <u>SR</u> | <u>SR</u> | <u>SR</u> | <u>SR</u> | <u>SR</u> |
| Revenue | 104,486,840 | 99,264,210 | 61,414,265 | 95,963,049 | 273,906,262 | 74,957,510 | 709,992,136 |
| Depreciation and amortization | 4,308,956 | 2,871,530 | 1,974,208 | 7,092,641 | 6,228,886 | 3,459,050 | 25,935,271 |
| Profit before zakat and income tax | 2,329,982 | 12,631,947 | 4,616,788 | 2,835,952 | 30,201,173 | 3,675,985 | 56,291,827 |
| Total assets | 250,604,615 | 125,302,307 | 25,060,462 | 594,196,352 | 252,630,784 | 16,706,974 | 1,264,501,494 |
| Total liabilities | 51,901,469 | 25,950,734 | 18,082,376 | 579,905,297 | 31,966,960 | 3,460,098 | 711,266,934 |
| Other: | | | | | | | |
| Capital expenditure | 2,160,925 | 2,080,462 | 341,241 | 70,041,357 | 27,452,486 | 1,144,062 | 103,220,533 |

Substantially, all the Group's operating assets are located in the Kingdom of Saudi Arabia. It is not meaningful to disclose information to individual geographic areas.

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25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

Financial assets of the Group consist of cash and cash equivalent, accounts receivable, unbilled revenues and investment in equity instruments at fair value through other comprehensive income. Financial liabilities of the Group consist of banks overdraft, term loans, finance lease obligations and trade payable.

Classification of financial instruments

| | 31 December 2018 | 31 December 2017 |
|---|-----------------------------|-----------------------------|
| | SR | SR |
| | | (Restated note 30) |
| <u>FINANCIAL ASSETS</u> | | |
| Financial assets at fair value through other comprehensive income | | |
| Investment in equity instruments at fair value through other comprehensive income | 18,930,188 | 18,759,045 |
| Financial assets at amortized cost | | |
| Cash and cash equivalent | 38,465,027 | 26,307,843 |
| Accounts receivable, net | 335,096,585 | 301,867,219 |
| Unbilled revenues | 15,366,930 | 4,842,023 |
| <u>FINANCIAL LIABILITIES</u> | | |
| Financial liabilities at amortized cost | | |
| Long-term loans | 136,827,670 | 181,525,288 |
| Finance lease obligations | 58,032,193 | 60,452,309 |
| Banks overdraft | 90,138,354 | 79,753,029 |
| Short-term loans | 289,459,002 | 212,400,000 |
| Current portion of long-term loans | 44,716,619 | 34,581,703 |
| Current portion of finance lease obligations | 2,469,689 | 3,038,867 |
| Trade payable | 11,527,814 | 13,271,446 |

Risk management

The main financial risks arising from the Group's financial instruments are credit risk, liquidity risk and fair value risk. Management reviews and reconciles policies to manage these risks.

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group has no significant concentration of credit risks. Cash and cash equivalents are placed with national and international banks with sound credit ratings. Trade and other accounts receivable are mainly due from large number of customers (corporations and individuals) as well as government institutions. The Group limits its credit risk to customers by setting a credit limit for each customer and monitoring outstanding accounts. Trade and other receivable are stated at their estimated realizable values.

Interest rate risk

Interest rate risk are the exposures 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's interest rate risk arise mainly from short term bank debts and long term debts and finance lease obligations, which are at floating rates of interest. All deposits and debts are subject to re-pricing on a regular basis. Management monitors the changes in interest rates on a regular basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Risk management (continued)

Interest rate risk (continued)

Interest rate sensitivity:

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates. At 31 December 2018, the Group is exposed to changes in market interest rates through bank borrowings at variable interest rates. Other borrowings are at fixed interest rates.

The following table illustrates the sensitivity of profit to a reasonably possible change in interest rates of +/- 1% (31 December 2017: +/- 1%). These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

| | Effect on profit for the year | |
|------------------|-------------------------------|-----------|
| | +1% | -1% |
| 31 December 2018 | (5,611,416) | 5,611,416 |
| 31 December 2017 | (5,082,600) | 5,082,600 |

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the 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 to meet the Group's future commitments.

Currency risk

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 riyal, United States dollar, Pound Sterling, Egyptian Pound and Arab Emirate Dirham. Other transactions in foreign currencies are not material. Currency risk is managed on regular basis.

The Group operates internationally and is exposed to currency risk arising from exposure to different currencies. The Group also has investments in subsidiaries and associates whose net assets are exposed to currency risk. These risks are currently reflected in currency exchange rate fluctuations between the Saudi Riyal, the UAE Dirham, the Pound Sterling, Egyptian Pound and the US Dollar. The exchange rate fluctuation between Saudi riyal, the UAE dirham and the pound are recorded in a separate line item in equity in the consolidated financial statements.

Foreign currency sensitivity:

Most of the Group's transactions are carried out in Saudi Riyals (SR). Exposures to currency exchange rates arise from the Group's overseas sales and purchases, which are primarily denominated in US dollars (USD), Pounds Sterling (GBP), Egyptian Pound (EGP) and UAE dirham (AED).

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26. FAIR VALUE OF FINANCIAL INSTRUMENTS

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. Differences between carrying amount and fair value estimates may arise. The definition of fair value is market-based measurement and assumptions used by market participants.

Assets and liabilities measured at fair value in the consolidated statement of financial position are grouped into three levels of fair value hierarchies. This grouping is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the fair value of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

| 31 December 2018 | Level 1 | Level 2 | Level 3 | Total |
|---|----------------|----------------|----------------|--------------|
| <u>FINANCIAL ASSETS</u> | SR | SR | SR | SR |
| Investment in equity instruments at fair value through other comprehensive income | --- | 18,930,188 | --- | 18,930,188 |
| Cash and cash equivalent | 38,465,027 | --- | --- | 38,465,027 |
| Accounts receivable, net | 335,096,585 | --- | --- | 335,096,585 |
| Unbilled revenues | 15,366,930 | --- | --- | 15,366,930 |
| <u>FINANCIAL LIABILITIES</u> | | | | |
| Long-term loans | 136,827,670 | --- | --- | 136,827,670 |
| Finance lease obligations | 58,032,193 | --- | --- | 58,032,193 |
| Banks overdraft | 90,138,354 | --- | --- | 90,138,354 |
| Short-term loans | 289,459,002 | --- | --- | 289,459,002 |
| Current portion of long-term loans | 44,716,619 | --- | --- | 44,716,619 |
| Current portion of finance lease obligations | 2,469,689 | --- | --- | 2,469,689 |
| Trade payables | 11,527,814 | --- | --- | 11,527,814 |

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26. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

| <u>31 December 2017 (Restated note 30)</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|----------------|----------------|--------------|
| <u>FINANCIAL ASSETS</u> | <u>SR</u> | <u>SR</u> | <u>SR</u> | <u>SR</u> |
| Investment in equity instruments at fair value through other comprehensive income | --- | 18,759,045 | --- | 18,759,045 |
| Cash and cash equivalent | 26,307,843 | --- | --- | 26,307,843 |
| Accounts receivable, net | 301,867,219 | --- | --- | 301,867,219 |
| Unbilled revenues | 4,842,023 | --- | --- | 4,842,023 |
| <u>FINANCIAL LIABILITIES</u> | | | | |
| Long-term loans | 181,525,288 | --- | --- | 181,525,288 |
| Finance lease obligations | 60,452,309 | --- | --- | 60,452,309 |
| Banks overdraft | 79,753,029 | --- | --- | 79,753,029 |
| Short-term loans | 212,400,000 | --- | --- | 212,400,000 |
| Current portion of long-term loans | 34,581,703 | --- | --- | 34,581,703 |
| Current portion of finance lease obligations | 3,038,867 | --- | --- | 3,038,867 |
| Trade payables | 13,271,446 | --- | --- | 13,271,446 |

27. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern.
- To provide an adequate return to shareholders by pricing products and services in a way that reflect the level of risk included in providing those goods and services.

The group goal in capital management is to maintain a high capital to overall financing ratio.

Management assesses the Group's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage. This takes into account the subordination levels of the Group's various classes of debt. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the number of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

28. GENERAL ASSEMBLY RESOLUTIONS

The general assembly has agreed on the following recommendations of the board of directors in its meeting held on 11 Rajab 1439 H (corresponding to 28 March 2018 G) to:

- Increase the share capital by SR 50 million to reach SR 450 million.
- Distribute cash dividends related to the year ended 31 December 2017 amounting to SR 20 million (SR 1 per share).
- Award bonus to the board members with a total amount of SR 900,000 related to the year ended 31 December 2017.

29. COMPARATIVE FIGURES

Certain comparative figures have been reclassified where necessary for better presentation; however, other than the adjustments mentioned in (note 30) below, no significant reclassifications have been made in these consolidated financial statements.

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30. RESTATEMENTS

- During the year 2018, The General Authority of Zakat and Income Tax (GAZT), has reviewed the Groups' records for the years from 2007 to 2014 which were under disagreement between the Group and GAZT. The final assessment resulted in a zakat payable of SR 12,892,229. This amount relates to prior years and the Group's management had estimated an approximate amount for the result until the final assessment is issued. The provision recorded in the prior year was based on the Group's estimate.

To reflect the adjustment in the estimate the Group recorded the zakat adjustment to retained earnings and the zakat and income tax payable in the year 2017.

- The group charged the compensation of the board of directors through retained earnings in the consolidated statement of changes in equity for the year ended 31 December 2017, therefore, retained earnings and net profit for the year ended 31 December 2017 has been restated as follows:

| | 31 December 2017 | Adjustment | 31 December 2017 |
|--|---------------------|--------------|---------------------|
| | SR | SR | SR |
| | As reported | | (Restated) |
| Retained earnings | 84,558,694 | (12,892,229) | 71,666,465 |
| Zakat and income tax payable | 3,386,386 | 12,892,229 | 16,278,615 |
| Net profit for the year | 55,191,827 | (900,000) | 54,291,827 |
| Retained earnings at 1 January 2018 (as reported) | | 84,558,694 | |
| Zakat and income tax payable effect | | (12,892,229) | |
| Revise board of directors' compensation to retained earnings | | 900,000 | |
| Net profit for the year | | (900,000) | |
| Retained earnings at 1 January 2018 (restated) | | 71,666,465 | |

31. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors has approved the consolidated financial statements on 14 Rajab 1438 H (corresponding to 21 March 2019 G).