

Financial Report

**Consolidated Financial
Statements for the year ended
31 December 2019**

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Independent Auditors' Report

To the Shareholders of Emaar the Economic City



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Opinion

We have audited the consolidated financial statements of Emaar The Economic City ("the Company" or "the Parent Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

The key audit matter	How our audit addressed the key audit matter
Revenue recognition Revenue is an important component of the Group's performance and profitability. Revenue recognition on the sale of properties, including villas, apartments and plots of land involves significant inherent risk due to the judgement and estimation involved. Audit of judgements around the percentage of completion of projects, including the cost incurred to date against the total cost of the project is an item which requires significant audit attention, in particular consideration of: <ul style="list-style-type: none">The ability of the Group to enforce payment for work completed under the terms of its contract thereby meeting the IFRS 15 criteria for revenue recognition over time;The total expected cost of completion of the projectsThe likelihood of collection of remaining sales consideration	 In responding to this key audit matter, our procedures included the following: <ul style="list-style-type: none">Obtained an understanding of the process and key controls surrounding the revenue recognition process. We performed walkthroughs and testing of relevant key controls to determine whether they were designed, implemented and operated effectively throughout the year.Reviewed the contracts on a sample basis for the sale of properties, plots of land to identify the performance obligations of the Group under these contracts and assessed whether these performance obligations are satisfied over time or at a point in time, based on IFRS 15 criteria. Our focus under these contracts included the determination of whether the Group has an enforceable right to payment for performance completed to date.

The key audit matter	How our audit addressed the key audit matter
<p data-bbox="309 378 622 404">Revenue recognition continued</p> <p data-bbox="309 422 1144 480">Refer to note 4 of the consolidated financial statements for the accounting policy related to revenue recognition and note 6 for the disclosure related to revenue.</p>	<ul data-bbox="1211 422 2080 727" style="list-style-type: none"> • Evaluated the Group's forecasting accuracy associated with the project costs and estimating costs to complete. • Assessed the likelihood of collection of sales consideration, as evidenced by bank guarantees and promissory notes. • Recalculated the revenue, on a sample basis, using the input method and compared it with the calculation performed by the management. • Assessed the appropriateness of the Group's revenue recognition accounting policies for recognizing revenue on sale of properties and the related disclosures in the consolidated financial statements.
<p data-bbox="309 745 1084 772">Impairment review of investment properties and property and equipment</p> <p data-bbox="309 790 1111 883">The Group assesses indicators of impairment on its investment properties and property and equipment on an ongoing basis due to expected volatility in the market prices.</p> <p data-bbox="309 906 1115 1028">We have considered this as a key audit matter as the evaluation of impairment indicators involves significant assumptions and estimates. Any variation in the estimation/assumptions could have a material impact on the consolidated financial statements.</p> <p data-bbox="309 1051 1167 1241">As part of its assessment, the Group reviews indicators including but not limited to, expected net cash flows from the identified Cash Generating Units (CGUs), current market conditions and other performance indicators. Also, the Group considers certain assets including freehold land and infrastructure assets as corporate assets, and combines expected net cash flows from all cash generating units to which the corporate assets belong, for impairment assessment.</p> <p data-bbox="309 1265 1189 1322">In addition to the above, the Group involves third party valuers to carry out valuations for its investment properties, to assess the fair value of its investment properties.</p> <p data-bbox="309 1345 1171 1438">Refer to note 4 to the consolidated financial statements for the accounting policy for impairment of non-current assets, note 13 & 15 for disclosures related to property and equipment and investment properties, respectively.</p>	<p data-bbox="1211 790 2000 847">In order to evaluate management's assessment of impairment, we performed the following:</p> <ul data-bbox="1211 865 2080 1456" style="list-style-type: none"> • Discussed with the management the process of identifying impairment indicators and results of the assessment. • Reviewed the appropriateness of management's identification of CGUs and the expected cash flows from CGUs, on a sample basis, and involved our internal valuation specialists to assess managements' impairment assessment, including reviewing the assumptions underlying the value in use calculations and performed retrospective review, based on knowledge of the business, industry and prevailing market conditions. Our specialists also assessed whether the approach and methods used for the purpose of impairment assessment are in accordance with the established standards. Assessed whether the source data used is mathematically accurate and reasonable by comparing the source data used in the valuation to the management reports. • Assessed the qualifications and expertise of the third party valuers, involved in the valuation of investment properties and reviewed the terms of their engagement to determine whether there were any matters that might have impacted their objectivity and • Assessed the appropriateness of the Group's accounting policies for impairment and the related disclosures in the consolidated financial statements.

Independent Auditors' Report continued

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies and Company's By-laws and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism 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, then we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of Emaar The Economic City and its subsidiaries ("the Group").

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For KPMG Al Fozan & Partners

Certified Public Accountants

Ebrahim Oboud Baeshen

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Jeddah, 01 Shaban 1441H

Corresponding to 25 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 SR'000	2018 SR'000
Revenue	6	986,888	1,008,234
Cost of revenue	7	(684,468)	(669,827)
GROSS PROFIT		302,420	338,407
EXPENSES			
Selling and marketing	8	(79,491)	(81,742)
General and administration	9	(290,652)	(263,584)
Impairment loss	13,15,19	(59,881)	(49,835)
Depreciation	13 (a), 14.1	(199,521)	(186,514)
Amortisation	16	(10,479)	(12,443)
LOSS FROM MAIN OPERATIONS		(337,604)	(255,711)
OTHER INCOME/(EXPENSES)			
Murabaha deposit income		791	7,737
Financial charges	10	(236,993)	(59,653)
Share of results of equity accounted investee	17 (a)	7,983	26,130
Other income, net	11	102,015	209,909
LOSS FOR THE YEAR BEFORE ZAKAT		(463,808)	(71,588)
Zakat	29	(45,000)	(66,000)
NET LOSS FOR THE YEAR		(508,808)	(137,588)
OTHER COMPREHENSIVE (LOSS)/INCOME			
<i>Items that will be reclassified to consolidated statement of profit or loss in subsequent periods:</i>			
Share of other comprehensive (loss)/income from equity accounted investee	17 (a)	(18,621)	7,744
<i>Items that will not be reclassified to consolidated statement of profit or loss in subsequent periods:</i>			
Re-measurement gain on defined benefit obligations	27	4,810	183
		(13,811)	7,927
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(522,619)	(129,661)
NET LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Equity holders of the Parent Company		(508,808)	(135,085)
Non-controlling interests		-	(2,503)
		(508,808)	(137,588)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Equity holders of the Parent Company		(522,619)	(127,158)
Non-controlling interests		-	(2,503)
		(522,619)	(129,661)
LOSS PER SHARE			
Basic and diluted loss per share attributable to ordinary equity holders of the Parent Company (in SR per share)	12	(0.60)	(0.16)

The attached notes 1 to 39 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 SR'000	2018 SR'000
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	13	5,930,630	5,517,751
Right-of-use assets	14	113,332	–
Investment properties	15	4,994,177	5,132,148
Unbilled revenue	19(d)	714,912	209,123
Development properties	18	1,054,380	1,603,109
Intangible assets	16	12,516	18,616
Investment in equity accounted investees	17	2,411,927	2,422,565
Employees' receivable – Home Ownership Scheme	22	115,382	104,497
TOTAL NON-CURRENT ASSETS		15,347,256	15,007,809
CURRENT ASSETS			
Current portion of employees' receivable – Home Ownership Scheme	22	7,213	6,278
Unbilled revenue	19(d)	362,141	502,344
Development properties	18	790,126	411,098
Accounts receivables and other current assets	19	656,661	761,538
Murabaha term deposits with banks	20	–	50,000
Cash and cash equivalents	21	404,393	602,632
TOTAL CURRENT ASSETS		2,220,534	2,333,890
TOTAL ASSETS		17,567,790	17,341,699
EQUITY AND LIABILITIES			
EQUITY			
Share capital	23	8,500,000	8,500,000
Statutory reserve	24	11,536	11,536
Accumulated losses		(1,157,305)	(634,077)
TOTAL EQUITY		7,354,231	7,877,459
NON-CURRENT LIABILITIES			

The attached notes 1 to 39 form part of these consolidated financial statements.

Consolidated Statement of Financial Position continued

As at 31 December 2019

	Notes	2019 SR'000	2018 SR'000
Long-term loans	25	6,556,250	7,051,250
Lease liabilities	14	80,625	–
Employees' terminal benefits	27	63,868	64,220
Unearned financing component on long term receivables		98,244	69,493
Unearned interest income – Home Ownership Scheme	22	30,737	26,871
TOTAL NON-CURRENT LIABILITIES		6,829,724	7,211,834
CURRENT LIABILITIES			
Accounts payable and accruals	28	1,305,108	1,088,063
Accrued Zakat	29	121,816	156,843
Current portion of long-term loans	25	1,557,500	857,500
Short-term loans	26	366,398	150,000
Lease liabilities	14	33,013	–
TOTAL CURRENT LIABILITIES		3,383,835	2,252,406
TOTAL LIABILITIES		10,213,559	9,464,240
TOTAL EQUITY AND LIABILITIES		17,567,790	17,341,699

The attached notes 1 to 39 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributed to equity holders of the Parent Company							Total equity SR'000
	Share capital SR'000	Statutory reserve SR'000	Accumulated losses SR'000	Effect of reducing the ownership percentage in a subsidiary SR'000	Total SR'000	Non-controlling interests SR'000		
Balance as at January 1, 2019	8,500,000	11,536	(634,077)	–	7,877,459	–	7,877,459	
Impact on initial application of IFRS 16 (note 5)	–	–	(609)	–	(609)	–	(609)	
Adjusted balance as at January 1, 2019	8,500,000	11,536	(634,686)	–	7,876,850	–	7,876,850	
Net loss for the year	–	–	(508,808)	–	(508,808)	–	(508,808)	
Other comprehensive loss for the year	–	–	(13,811)	–	(13,811)	–	(13,811)	
Total comprehensive loss for the year	–	–	(522,619)	–	(522,619)	–	(522,619)	
Balance as at 31 December 2019	8,500,000	11,536	(1,157,305)	–	7,354,231	–	7,354,231	
Balance as at 1 January 2018	8,500,000	11,536	(502,261)	(86)	8,009,189	(2,069)	8,007,120	
Net loss for the year	–	–	(135,085)	–	(135,085)	(2,503)	(137,588)	
Other comprehensive income for the year	–	–	7,927	–	7,927	–	7,927	
Total comprehensive loss for the year	–	–	(127,158)	–	(127,158)	(2,503)	(129,661)	
Acquisition of non-controlling interests (note 4)	–	–	(4,658)	86	(4,572)	4,572	–	
Balance as at 31 December 2018	8,500,000	11,536	(634,077)	–	7,877,459	–	7,877,459	

The attached notes 1 to 39 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 SR'000	2018 SR'000
OPERATING ACTIVITIES			
Loss for the year before Zakat		(463,808)	(71,588)
Adjustments to reconcile loss for the year before Zakat to net cash flows:			
Depreciation	13,14,15	349,945	292,991
Impairment loss	13,15,19	59,881	49,835
Amortization	16	10,479	12,443
Financial charges	10	236,993	59,653
Share of results of equity accounted investees	17	(7,983)	(26,130)
Murabaha deposit income		(791)	(7,737)
Unwinding of unearned interest income		(2,622)	(1,444)
Gain on disposal of investment properties	11	(30,826)	(84,114)
Gain on disposal of property and equipment		(140)	-
Employees' benefit expense – Home Ownership Scheme		6,979	10,335
Provision for development properties	18	-	(1,329)
Provision for employees' terminal benefits	27	17,234	15,113
		175,341	248,028
<i>Working capital adjustments</i>			
Employees' receivable – Home Ownership Scheme		(18,799)	(32,857)
Unbilled revenue, net		(365,586)	(287,812)
Development properties		191,079	(201,826)
Accounts receivables and other current assets		39,737	13,530
Other long-term receivables		-	24,059
Accounts payable and accruals		154,700	(14,154)
Net cash generated from/(used in) operations		176,472	(251,032)
Financial charges paid		(318,979)	(289,066)
Finance charges paid on lease liabilities		(5,265)	-
Zakat paid	29	(80,027)	(62,243)
Employees' terminal benefits paid	27	(12,776)	(3,468)
Net cash used in operating activities		(240,575)	(605,809)

The attached notes 1 to 39 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows continued

For the year ended 31 December 2019

	Notes	2019 SR'000	2018 SR'000
INVESTING ACTIVITIES			
Investment in Murabaha term deposits		(8,860,894)	(13,758,746)
Murabaha term deposit encashment		8,910,894	14,232,856
Murabaha deposit income		1,924	7,929
Additions to property and equipment		(378,910)	(392,516)
Additions to investment properties	15	(106,557)	(159,434)
Proceeds from sale of investment properties		46,506	–
Proceeds from disposal of property and equipment		140	–
Additions to intangible assets	16	(4,379)	(15,861)
Net cash used in investing activities		(391,276)	(85,772)
FINANCING ACTIVITIES			
Proceeds from loans		1,666,398	650,000
Repayments of loans		(1,245,000)	(591,250)
Movement in unearned interest income		35,239	7,653
Repayment of short term lease liabilities		(509)	–
Repayment of lease liabilities		(22,516)	–
Net cash generated from financing activities		433,612	66,403
DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at the beginning of the year	21	602,632	1,227,810
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	21	404,393	602,632

The attached notes 1 to 39 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

At 31 December 2019

1. CORPORATE INFORMATION

Emaar The Economic City (the "Company" or the "Parent Company") is a Saudi Joint Stock Company incorporated and operating in the Kingdom of Saudi Arabia ("KSA") under Ministerial Decision No. 2533, dated 03 Ramadan 1427H, corresponding to 21 September 2006. The Company obtained its initial Commercial Registration No. 4030164269 on 8 Ramadan 1427H, corresponding to 26 September 2006. The registered office of the Company has been shifted to Rabigh with a revised Commercial Registration No. 4602005884, dated 6 Rabi Awal 1436H, corresponding to 28 December 2014.

The Company is engaged in the development of real estate in the economic or other zones and other development activities including infrastructures, promotion, marketing and sale of land within development areas, transfer/lease of land, development of buildings/housing units, and construction on behalf of other parties. The main activity of the Company is the development of the King Abdullah Economic City ("KAEC").

These consolidated financial statements include the results, assets and liabilities of the following registered branches of the Group:

Branch	Commercial Registration No.
Jeddah	4030164269
Riyadh	1010937549
Rabigh	4602006934

As at the reporting date, the Company has investments in subsidiaries, mentioned in note 4 (hereinafter referred to together as "the Group").

2. BASIS OF PREPARATION

2.1 Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

2.2 Basis of measurement

The accompanying consolidated financial statements have been prepared under the historical cost basis, unless stated otherwise, using the accrual basis of accounting and the going concern concept.

Certain comparative amounts have been reclassified to conform to the current period's presentation.

As required by the Capital Market Authority ("CMA") through its circular dated 16 October 2016, the Group needs to apply the cost model to measure the property and equipment, investment properties and intangible assets upon adopting the IFRS for three years period starting from the IFRS adoption date.

On 31 December 2019, CMA has examined the suitability of continuing to use the cost model or permitting the use of the fair value model or revaluation option and made the following decisions:

- Obligating listed companies to continue to use the cost model to measure property (IAS 16) and investment property (IAS 40) in the financial statements prepared for financial periods within fiscal years, which start before the calendar year 2022.
- Allowing listed companies, the policy choice to use the fair value model for investment property subsequent to initial measurement or the policy choice to use the revaluation model for property (IAS 16) subsequent to initial recognition in the financial statements prepared for financial periods within fiscal years starting during the calendar year 2022 or thereafter.

2.3 Functional and presentation currency

The Group's consolidated financial statements are presented in Saudi Arabian Riyals ("SR"), which is also the Parent Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. All figures are rounded off to the nearest thousands except when otherwise indicated.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods.

The key judgements, estimates and assumptions that have a significant impact on the consolidated financial statements of the Group are discussed below:

Judgements

Satisfaction of performance obligations

The Group is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognizing revenue. The Group has assessed that based on the sale agreements entered into with customers and the provisions of relevant laws and regulations, where contracts are entered into to provide real estate assets to customer, the Group does not create an asset with an alternative use to the Group and usually has an enforceable right to payment for performance completed to date. Based on this, the Group recognizes revenue over time. Where this is not the case, revenue is recognized at a point in time.

The Group considers that the use of the input method, which requires revenue recognition based on the Group's efforts to the satisfaction of the performance obligation, provides the best reference of revenue actually earned. In applying the input method, the Group estimates the cost to complete the projects in order to determine the amount of the revenue to be recognized.

Determination of transaction prices

The Group is required to determine the transaction price in respect of each of its contracts with customers. In making such judgement the Group assesses the impact of any variable consideration in the contract, due to discounts or penalties, the existence of any significant financing component in the contract and any non-cash consideration in the contract.

In determining the impact of variable consideration, the Group uses the "most-likely amount" method in IFRS-15 Revenue from Contracts with Customers whereby the transaction price is determined by reference to the single most likely amount in a range of possible consideration amounts.

Extension options for leases

The Group has the option, under some of its leases to lease the assets for additional terms of one to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Notes to the Consolidated Financial Statements continued

At 31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS continued

Judgements continued

Operating lease commitments – Group as lessor

The Group enters into commercial and retail property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and, therefore, accounts for the contracts as operating leases.

Consolidation of subsidiaries

The Group has evaluated all the investee entities to determine whether it controls the investee as per the criteria laid out by IFRS 10 Consolidated Financial Statements. The Group has evaluated, amongst other things, its ownership interest, the contractual arrangements in place and its ability and the extent of its involvement with the relevant activities of the investee entities to determine whether it controls the investee.

Estimations and assumptions

Defined benefit plans

The cost of the defined benefit plan and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and employees' turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The most sensitive parameters are discount rate and future salary increases. In determining the appropriate discount rate, management considers the market yield on high quality corporate bonds. Future salary increases are based on expected future inflation rates, seniority, promotion, demand and supply in the employment market. The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Further details about employee benefits obligations are provided in note 27.

Provision for expected credit losses (ECLs) of accounts receivables

The Group uses a provision matrix to calculate ECLs for accounts receivables. The provision matrix is initially based on the Group's historically observed rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information at each reporting date. The assessment of the correlation between historically observed default rates, forecasted economic conditions and ECLs are significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECL on the Group's accounts receivables is disclosed in note 19.

Useful lives of property and equipment and investment properties

The Group's management determines the estimated useful lives of its property and equipment and investment properties for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. The management periodically reviews estimated useful lives and the depreciation method to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

Cost to complete the projects

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

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows. Development properties are stated at the lower of cost and estimated net realisable value.

Leases – Estimating the incremental borrowing rate

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate ("IBR") is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms and conditions. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

Going concern

As at December 31, 2019, the Group's current liabilities exceed the current assets by SR 1,163 million, primarily due to the long-term loan's current portion, falling due in next twelve months. The Group has additional approved facilities (refer note 25) and currently in the process to withdraw appropriate required amounts in the first half of 2020.

Furthermore, discussions regarding the restructuring of the loans and repayment plans are already in progress with the respective banks. Moreover, subsequent to year-end, the Ministry of finance (MOF) has rescheduled the first instalment due on June 2020 to January 2021. Consequently, the principal amount is now repayable in seven annual instalments, commencing from January 2021, with accrued commission payable on an annual basis.

The Board of Directors has assessed the ability of the Group to continue as a going concern based on the operating plans and cash flow projections and is not aware of any material uncertainties that may cast significant doubts and the Board of Directors are satisfied that the Group has the resources to continue in the business and meet its obligations as they fall due in the ordinary course of business in the foreseeable future. Accordingly, the consolidated financial statements of the Group continue to be prepared on the going concern basis.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, except for the adoption of new standards effective as of 01 January 2019 (refer note 5).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and;
- The ability to use its power over the investee to affect its returns.

Notes to the Consolidated Financial Statements continued

At 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES continued

Basis of Consolidation continued

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investees;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

A change in the ownership interest of the subsidiary, without the loss of control, is accounted for as equity transactions. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in consolidated statement of profit or loss and other comprehensive income. Any investment retained is recognized at fair value.

The Company has investments in the following subsidiaries, which are primarily involved in development, investments, marketing, sale/lease, operations and maintenance of properties, providing higher education and establishment of companies:

Name	Country of incorporation	Year of incorporation	% of capital held (directly or indirectly)	
			2019	2018
Economic Cities Investments Holding Company ("ECIHC")	Kingdom of Saudi Arabia	2010	100%	100%
Industrial Zones Development Company Limited ("IZDCL")	Kingdom of Saudi Arabia	2011	100%	100%
Economic Cities Real Estate Properties Operation and Management Company ("REOM")	Kingdom of Saudi Arabia	2013	100%	100%
Economic Cities Pioneer Real Estate Management Company ("REM")	Kingdom of Saudi Arabia	2013	100%	100%
Economic Cities Real Estate Development Company ("RED")	Kingdom of Saudi Arabia	2013	100%	100%
Emaar Knowledge Company Limited ("EKC")	Kingdom of Saudi Arabia	2015	100%	100%

The financial statements of subsidiaries are prepared for the same reporting period using the same accounting framework as the Group. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

Pursuant to the resolutions passed by the shareholders of the above mentioned entities during 2018, the Company has acquired remaining shareholdings in ECIHC, IZDCL, REOM, REM and RED. The legal formalities in respect of transfer of these shares for ECIHC were completed during the year and for RED, REM and REOM, these were completed subsequent to the year-end. For IZDCL, it is still in process.

Refer to note 17 for information related to equity accounted investees.

Investment in equity accounted investees (associate and joint venture)

Associate is an entity in which the Group has significant influence, but not control, over the financial and operating policies. Joint venture is an entity over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. The Group's investment in associate and joint venture are accounted for using the equity method. Under the equity method, the investment in associate and joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. The consolidated statement of profit or loss and other comprehensive income reflects the Group's share of the results of operations of the associate and joint venture. Any change in Other Comprehensive Income (OCI) of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and associate and its joint venture are eliminated to the extent of the Group's interest in the associate and joint venture. The financial statements of the associate and joint venture are prepared for the same reporting period and the same accounting framework as the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in associate or its joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the loss in the consolidated statement of profit or loss and other comprehensive income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in associate or joint venture, the carrying amount of that interest is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Current versus non-current classification

Assets

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

Liabilities

A liability is current when:

- Expected to be settled in the normal operating cycle;
- Held primarily for the purpose of trading;
- Due to be settled within twelve months after the reporting period; or
- No unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Notes to the Consolidated Financial Statements continued

At 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

Revenue is recognized in the consolidated statement of profit or loss and other comprehensive income to the extent that it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably.

Revenue from contracts with customers for sale of properties

The Group recognizes revenue from contracts with customers based on a five step model as set out in IFRS 15:

- Step 1. Identify the contract with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria that must be met.
- Step 2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
- Step 3. Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
- Step 4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
- Step 5. Recognize revenue when (or as) the entity satisfies a performance obligation.

If the consideration promised in a contract includes a variable amount, the Group shall estimate the amount of consideration to which the Group will be entitled in exchange for transferring the promised goods or services to a customer.

The promised consideration can vary if the Group's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. An amount of consideration can vary due to discounts, rebates, refunds, credits, incentives, penalties or other similar items. The variability relating to the consideration promised by a customer, if any, is explicitly stated in the contract. Accordingly, the Group estimates the amount of variable consideration by using the most likely amount in accordance with the terms of the contract.

In respect of contracts with customers for sale of property, in addition to the five-step model, the Company satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

- 1) The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; or
- 2) The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- 3) The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to-date.

For performance obligations, where one of the above conditions are not met, revenue is recognized at the point in time at which the performance obligation is satisfied.

When the Group satisfies a performance obligation by delivering the promised goods or services, it creates a contract asset based on the amount of consideration earned by the performance. Where the amount billed to the customer exceeds the amount of revenue recognized, this gives rise to a contract liability.

Rental income

Rental income from investment properties is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred or incentive in negotiating and arranging an operating lease is considered an integral part of the carrying amount of the leased contract and recognized on a straight-line basis over the lease term.

Service revenue

Revenue from rendering of services is recognized over a period of time when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the reporting date. Where the outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

Hospitality revenue

It comprises of revenue from rooms, food and beverages and other associated services provided. The revenue is recognized net of discount on an accrual basis when the services are rendered.

School revenue

Tuition, registration and other fees are recognized as an income on an accrual basis.

Income on Murabaha term deposits

Income on Murabaha term deposits with banks is recognized on an effective yield basis.

Cost of revenue

Cost of revenue includes the cost of land, development and other service related costs. The cost of revenue is proportionate to sold units and is based on the cost incurred to-date to the estimated total costs for each project. The costs of revenues in respect of hospitality business, services and rental income is based on the cost of providing the services.

Expenses

Selling and marketing and general and administrative expenses include direct and indirect costs not specifically part of cost of revenue. Selling and marketing expenses are those arising from the Group's efforts underlying the sales and marketing functions. All other expenses, except for financial charges, depreciation, amortization and impairment loss are classified as general and administrative expenses. Allocations of common expenses between cost of revenue, selling and marketing and general and administrative expenses, when required, are made on a consistent basis.

Zakat

Zakat is provided for in accordance with the Saudi Arabian fiscal regulations. Provision for Zakat for the Company and Zakat related to the Company's ownership in the Saudi Arabian subsidiaries is charged to the consolidated statement of profit or loss and other comprehensive income. Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which the assessment is finalized.

Withholding tax

The Group withholds taxes on certain foreign payments as required under the Saudi Arabian Tax Laws. Such withholding tax is recorded as a liability.

Value added tax

The Group is subject to Value Added Tax ("VAT") for real estate business and other services except exempt supplies in accordance with the VAT regulations prevailing in the Kingdom of Saudi Arabia. The amount of VAT liability is determined by applying the applicable tax rate to the value of supply ("Output VAT") less VAT paid on purchases ("Input VAT"). The Group reports revenue and purchases net of VAT for all the periods presented in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. However, Input VAT related to exempt supplies is added to the cost of purchases whereas Input VAT related to mixed supplies is claimed using the Default Rate Formula.

Notes to the Consolidated Financial Statements continued

At 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES continued

Foreign currencies

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange ruling at the reporting date. All differences arising on settlement or translation of monetary items are taken to the consolidated statement of profit or loss and other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of a gain or loss on change in fair value of the item.

Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Such cost also includes the borrowing costs for long-term construction projects if the recognition criteria are met.

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

The cost of replacing a major part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. When significant parts of property and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of profit or loss and other comprehensive income as incurred.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognized.

Depreciation

The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. Freehold land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets. Depreciation methods, useful lives and residual values are reviewed periodically and adjusted if required.

Capital work in progress (CWIP)

Capital work in progress are carried at cost less any recognized impairment loss. When the assets are ready for intended use, the capital work in progress is transferred to the appropriate property and equipment category and is accounted for in accordance with the Group's policies.

Leases

Policy applicable from 1 January 2019

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

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
 - the Group has the right to operate the asset; or
 - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

Company as a lessee

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

Right-of-use assets:

The Group recognises a right-of-use asset and lease liability at the commencement date of the lease (i.e., the date the underlying asset is available for use). The right-of-use asset is initially measured at cost. Subsequently, it is measured at cost less accumulated depreciation and impairment losses, if any, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of costs to dismantle, less any lease incentive received. The estimated useful life of right-of-use assets are determined on the same basis as those of property and equipment. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities:

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Notes to the Consolidated Financial Statements continued

At 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES continued

Company as a lessee continued

Short-term leases and leases of low-value assets:

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less, and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. The Group enters into leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases. Lease income is recognized in the consolidated statement of profit or loss and other comprehensive income in accordance with the terms of the lease contracts over the lease term on a systematic basis as this method is more representative of the time pattern in which use of benefits are derived from the leased assets.

Lease incentives or any escalation in the lease rental are recognized as an integral part of the total lease receivable and accounted for on a straight-line basis over the term of the lease. Contingent rents are recognized as revenue in the period in which they are earned.

The Group operates an "Employee Home Ownership Scheme" which is categorized as a finance lease. Under the scheme, the Group sells the built units to employees under interest free finance lease arrangement for a period of twenty years. Generally, the employee is entitled to continue in the scheme, even after retirement, resignation or termination from the Group. The gross value of the lease payments is recognized as a receivable under employee home ownership scheme. The difference between the gross receivable and the present value of the receivable is recognized as an unearned interest income with a corresponding impact in the consolidated statement of profit or loss and other comprehensive income as an employee benefit expense. Interest income is recognized in the consolidated statement of profit or loss and other comprehensive income over the term of the lease using the effective rate of interest. In case of cancellation of the employee home ownership contract by the employee, the amount paid by the employee under the scheme is forfeited and recognized in the consolidated statement of profit or loss and other comprehensive income.

Policy applicable before 1 January 2019

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. An operating lease is a lease other than a finance lease. Generally, all leases entered by the Group are operating leases and the leased assets are not recognized in the Group's consolidated statement of financial position. Operating lease cost is recognized as an operating expense in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

Group as a lessor

Lessor accounting under IFRS 16 is substantially unchanged as under IAS 17. Accordingly, the same accounting policy has been consistently applied under IFRS 16.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs that are directly attributable to the construction of an asset are capitalized using capitalization rate up to the stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the consolidated statement of profit or loss and other comprehensive income. In case of specific borrowings, all such costs, directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Investment properties

Investment properties are non current assets held either to earn rental income or for capital appreciation or for both, as well as those held for undetermined future use but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and impairment loss, if any. Investment properties are depreciated on a straight-line basis over the estimated useful life of the respective assets. No depreciation is charged on land and capital work-in-progress.

Investment properties are derecognized either when they have been disposed off or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of profit or loss and other comprehensive income in the period of derecognition.

Expenses incurred for replacing component of investment properties items, which are accounted for separately are capitalized, and carrying value of replaced component is written off. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of the related investment properties. All other expenses are recognized in the consolidated statement of profit or loss and other comprehensive income when incurred.

Transfers are made from investment properties to development properties only when there is a change in use evidenced by commencement of development with a view to sell. Such transfers are made at the carrying value of the properties at the date of transfer. The useful lives and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

Fair value measurement

The Group discloses the fair value of the non-financial assets such as investment properties as part of its financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

Notes to the Consolidated Financial Statements continued

At 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES continued

Intangible assets

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 accumulated impairment losses. Internally generated intangibles are not capitalized and the related expenditure is reflected in the consolidated statement of profit or loss and other comprehensive income in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the 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 or loss and other comprehensive income in the expense category that is consistent with the function of the intangible assets.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognized.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit (CGU's) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using appropriate discount rate that reflects current market assessments of the time value of money. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of profit or loss and other comprehensive income.

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

Development properties

Properties acquired, constructed or in the course of construction and development for sale are classified as development properties and are stated at the lower of cost and net realizable value. The cost of development properties generally includes the cost of land, construction and other related expenditure necessary to get the properties ready for sale. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The management reviews the carrying values of development properties on an annual basis.

The operating cycle of development properties is such that the majority of development properties are expected to be realized beyond a period of 12 months from the reporting date. At each reporting date, the management categorizes the development properties as current or non-current based on their expected realisation date.

Financial Instruments

Initial recognition – Financial assets and financial liabilities

An entity shall recognize a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument.

Financial assets

Initial Measurement

At initial recognition, except for the trade receivables which do not contain a significant financing component, the Group measures a financial asset at its fair value. In the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value of the respective financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of profit or loss and other comprehensive income, if any.

The trade receivables that do not contain a significant financing component or which have a maturity of less than 12 months are measured at the transaction price as per IFRS 15.

Classification and subsequent measurement

The Group classifies its financial assets in the following measurement categories:

- a) those to be measured subsequently at fair value (either through consolidated statement of other comprehensive income, or through consolidated statement of profit or loss); and
- b) those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The category most relevant to the Group is financial assets measured at amortized cost.

The Group has not classified any financial asset as measured at fair value through consolidated statement of profit or loss and other comprehensive income.

Financial assets measured at amortized cost

A financial asset shall be measured at amortized cost if both of the following conditions are met:

- a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost include receivables, employees' receivable – home ownership scheme, Murabaha term deposits with banks and cash and cash equivalents.

After initial measurement, such financial assets are subsequently measured at amortized cost using the Effective Interest Rate ("EIR") method, less impairment (if any). Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of profit or loss and other comprehensive income. The losses arising from impairment are recognized in the consolidated statement of profit or loss and other comprehensive income.

Notes to the Consolidated Financial Statements continued

At 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets continued

Reclassification

When and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets in accordance with the above mentioned classification requirements.

De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e. removed from the Group's consolidated statement of financial position) when the rights to receive cash flows from the asset have expired.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and a loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as economic conditions that correlate with defaults.

IFRS 9 requires an entity to follow an expected credit loss ("ECL") model for the impairment of financial assets. It is no longer necessary for a credit event to have occurred for the recognition of credit losses. Instead, an entity, using expected credit loss model, always accounts for expected credit losses and changes therein at each reporting date. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive.

Expected credit loss shall be measured and provided either at an amount equal to (a) 12 month expected losses; or (b) lifetime expected losses. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for the amounts that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, with a significant financing component, a simplified approach is available, whereby an assessment of increase in credit risk need not be performed at each reporting date. Instead, an entity can choose to provide for the expected losses based on lifetime ECL. The Group has chosen to avail the option of lifetime expected credit losses ("ECL"). Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables with no significant financing component, an entity is required to follow lifetime ECL.

The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of profit or loss and other comprehensive income. Commission income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other income in the consolidated statement of profit or loss and other comprehensive income.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

The Group considers a financial asset to be in default when the debtor is unlikely to repay the outstanding balance to the Group in full, without recourse by the Group to actions such as realizing security (if any is held).

Financial liabilities

Initial measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through consolidated statement of profit or loss and other comprehensive income, loans and borrowings and payables, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of long term loans and payables, net of directly attributable transaction costs. The Group's financial liabilities include accounts payable, lease liabilities, accruals and term loans.

Classification and subsequent measurement

An entity shall classify all financial liabilities as subsequently measured at amortized cost, except for:

- a) financial liabilities at fair value through consolidated statement of profit or loss and other comprehensive income.
- b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- c) financial guarantee contracts.
- d) commitments to provide a loan at a below-market commission rate.
- e) contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies. Such contingent consideration shall subsequently be measured at fair value with changes recognized in consolidated statement of profit or loss and other comprehensive income.

All of the Group's financial liabilities are subsequently measured at amortized cost using the EIR method, if applicable. Gains and losses are recognized in the consolidated statement of profit or loss and other comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statement of profit or loss and other comprehensive income.

Reclassification

The Group cannot reclassify any financial liability.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of profit or loss and other comprehensive income.

Notes to the Consolidated Financial Statements continued

At 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES continued

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, to realize the assets and settle the liabilities simultaneously.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less, which are subject to an insignificant risk of changes in value.

Murabaha term deposits with banks

Murabaha term deposits with banks include placements with banks with original maturities of more than three months and less than one year from the placement date.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss and other comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost in the consolidated statement of profit or loss and other comprehensive income.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined benefit plans

The Group maintains an unfunded defined benefit plan for employees' termination/end of service benefits in accordance with the Saudi Arabian Labor Law.

The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefits that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses are recognized immediately in OCI. Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Net interest expense and other expenses related to defined benefit plans are recognized in the consolidated statement of profit or loss and other comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the consolidated statement of profit or loss and other comprehensive income.

For the liability relating to employees' terminal benefits, the actuarial valuation process takes into account the provisions of the Saudi Arabian Labour Law as well as the Group's policy.

Segment reporting

An operating segment is a component of an entity:

- i) that is engaged in business activities from which it may earn revenue and incur expenses including revenues and expenses that relate to transactions with any of the Group's other components;
- ii) whose operating results are continuously analyzed by chief operating decision maker in order to make decisions related to resource allocation and performance assessment; and
- iii) for which financial information is discretely available.

For further details of business segments, refer note 32.

A geographical segment is engaged in producing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. Since the Group operates in the Kingdom of Saudi Arabia only, hence, no geographical segments are being presented in these consolidated financial statements.

5. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

a) Standards, interpretations and amendments adopted by the Group

The Group has adopted, as appropriate, the following new and amended IASB Standards, effective 1 January 2019:

IFRS 16 Leases

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

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

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 01 January 2019. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into a change on or after 01 January 2019. When applying the modified retrospective approach, a lessee does not restate comparative figures. Instead, a lessee recognises the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Notes to the Consolidated Financial Statements continued

At 31 December 2019

5. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS continued

a) Standards, interpretations and amendments adopted by the Group continued

Impact of transition

Upon transition to IFRS 16, the Group recognised right-of-use assets and lease liabilities by recognising the difference in consolidated retained earnings. The impact on transition is summarised below:

	1 January 2019 (SR'000)
Right-of-use assets	140,167
Lease liabilities	(140,776)
Consolidated retained earnings	(609)

Reconciliation of lease liability

The following table represents the lease reconciliation as at 1 January 2019.

	SR'000
Operating lease commitments as at 31 December 2018	91,281
Additional leases on adoption of IFRS 16	61,700
Operating lease commitments as at 1 January 2019	152,981
Incremental borrowing rate as at 1 January 2019	4.20%
Discounted operating lease commitments as at 1 January 2019	141,284
Commitments relating to short-term leases	(509)
Adjustment of prepayment	(8,000)
Lease liabilities recognised as at 1 January 2019 (note 14.2)	132,775

Impact on consolidated statement of profit or loss and other comprehensive income

During the year ended 31 December 2019, due to the adoption of IFRS 16 – Leases, the Group's operating loss has increased by SR 7.59 million, due to increase in depreciation expense and interest charge by SR 30.21 million and SR 5.27 million, respectively, offset by a reduction in operating lease rentals by SR 27.89 million.

In the comparative period, assets held under operating leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in the consolidated statement of profit or loss on a straight-line basis over the term of the lease.

b) Agenda decision – Over Time Transfer of Constructed Good – IAS 23 Borrowing Costs:

During 2019, the IFRS Interpretations Committee published an agenda decision "Over Time Transfer of Constructed Good – IAS 23 Borrowing Costs" (hereinafter referred to as 'the agenda decision').

The agenda decision states that Inventories (work-in-progress) for unsold units under construction that the Group recognizes, are not qualifying assets. The agenda decision clarifies as that these assets are ready for its intended sale in its current condition, i.e., the Group intends to sell the part-constructed units as soon as it finds suitable customers and, on signing a contract with a customer and will transfer control of any work-in-progress relating to that unit to the customer, these are not qualifying assets and hence do not meet the IAS 23 criteria for capitalization of borrowing costs.

As this will be a change in the accounting policy, IASB allows entities to implement the resultant changes within sufficient time, which depends on the particular facts and circumstances, accounting policy change, and the reporting entity.

The management is in the process of assessing the accounting and system-related impacts. Considering the additional information needed, complexities involved in determining the adjustments due to the nature, size and scale of the business, the management expects to implement these changes during the year 2020.

c) Standards, interpretations and amendments issued but not yet effective

The standards, interpretations and amendments issued, but not yet effective up to the date of issuance of the financial statements are disclosed below. The Group intends to adopt these standards, where applicable, when they become effective.

Standard/Interpretation	Description	Effective from periods beginning on or after the following date
Conceptual Framework	Amendments to References to Conceptual Framework in IFRS Standards	01 January 2020
IFRS 3	Definition of a Business (amendments to IFRS 3)	01 January 2020
IAS 1 and IAS 8	Definition of Material (amendments to IAS 1 and IAS 8)	01 January 2020
IFRS 17	Insurance contracts	01 January 2021
IFRS 10 and IAS 28	Sale or contribution of assets between investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	Available for optional adoption/effective date deferred indefinitely

The Group is currently assessing the applicability and implications of adopting the above mentioned standards, amendments or interpretations on its financial statements on adoption, where applicable.

6. REVENUE

	31 December 2019 SR' 000	31 December 2018 SR' 000
Revenue by operating segments:		
Residential business	522,789	561,626
Industrial development	318,652	251,047
Hospitality and leisure	75,945	42,253
Others	69,502	153,308
	986,888	1,008,234
Revenue by nature:		
Sale of properties	710,363	757,412
Leasing	117,542	132,714
Hospitality	70,566	54,134
Others	88,417	63,974
	986,888	1,008,234

Notes to the Consolidated Financial Statements continued

At 31 December 2019

7. COST OF REVENUE

	31 December 2019 SR' 000	31 December 2018 SR' 000
Cost of properties	252,946	270,324
Depreciation	150,436	105,905
Employees' costs	80,400	73,474
Hospitality	16,474	21,749
Others	184,212	198,375
	684,468	669,827

8. SELLING AND MARKETING EXPENSES

	31 December 2019 SR' 000	31 December 2018 SR' 000
Employees' costs	26,838	25,432
Branding and marketing costs	17,953	28,652
Advertising and promotion	12,848	6,928
Public relations	2,030	7,149
Others	19,822	13,581
	79,491	81,742

9. GENERAL AND ADMINISTRATION EXPENSES

	31 December 2019 SR' 000	31 December 2018 SR' 000
Employees' costs	200,040	173,606
Professional charges	33,172	34,837
Communication and office costs	23,492	20,032
Facility and city management services	14,154	12,618
Rent	3,273	6,187
Repairs and maintenance	3,931	4,677
Others	12,590	11,627
	290,652	263,584

10. FINANCIAL CHARGES

	31 December 2019 SR' 000	31 December 2018 SR' 000
Commission on loans	227,924	55,741
Financial charges on leases (note 14.2)	5,265	–
Bank charges	3,804	3,912
	236,993	59,653

11. OTHER INCOME, NET

	31 December 2019 SR' 000	31 December 2018 SR' 000
Reimbursement of expenses (see note (a) below)	55,243	51,040
Amortization of unearned interest (see note (b) below)	24,658	30,807
Reversal of accruals no longer required	1,055	24,342
Profit on disposal of investment properties (see note (c) below)	30,826	84,114
Claim settlement provision (see note (d) below)	(10,000)	–
Gain on disposal of property and equipment	140	–
Others	93	19,606
	102,015	209,909

- a) The Group has entered into an agreement (“the Agreement”) with two external parties to develop, finance and operate an academic educational institute at KAEC. In accordance with the terms of the Agreement, the net life cycle operating loss of the Institute is to be funded by one of the parties to the Agreement, to the extent of USD 58.5 million. Consequently, the net operating loss of the subject institute, amounting to SR 55.2 million (2018: SR 51 million), incurred during the year, has been accounted for as an other income accordingly.
- b) Unwinding of interest income on significant financing component amounting to SR 24.7 million (31 December 2018: SR 30.8 million).
- c) During the year, the Group has entered into agreements with certain customers for the sale of investment properties resulting in a gain of SR 31 million (31 December 2018: SR 84 million).
- d) A government agency filed a claim against the Company related to operations of the Oceana Villas. The Group defended the claim by submitting all the requested documents, with no resolution. To close the case, the agency proposed an amount of SR 10 million as full and final settlement which has been accepted by the Group. Accordingly, it has been reflected as provision in the books of accounts. The settlement documentation is still in process.

12. LOSS PER SHARE

Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the profit attributable to equity holders of the Parent Company (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. Since the Group does not have any convertible shares, therefore, the basic EPS equals the diluted EPS. Moreover, no separate earning per share calculation from continuing operations has been presented since there were no discontinued operations during the year.

Notes to the Consolidated Financial Statements continued

At 31 December 2019

12. LOSS PER SHARE continued

The loss per share calculation is given below:

	31 December 2019 SR' 000	31 December 2018 SR' 000
Loss attributable to ordinary equity holders of the parent	(508,808)	(135,085)
Weighted average number of ordinary shares ('000)	850,000	850,000
Loss per share (Saudi Riyals) – Basic and Diluted	(0.60)	(0.16)

13. PROPERTY AND EQUIPMENT

The estimated useful lives of the assets for the calculation of depreciation are as follows:

	Useful lives
Buildings	10–50 years
Heavy equipment & machinery	5–10 years
Office equipment	3 years
Infrastructure assets	10–30 years
Leasehold improvements	2 – 10 years
Furniture and fixtures	4 – 10 years
Motor vehicles	4 years

	Freehold land SR'000	Buildings SR'000	Leasehold improvements SR'00	Heavy equipment & machinery SR'000	Furniture and fixtures SR'000	Office equipment SR'000	Motor vehicles SR'000	Infrastructure assets SR'000	Capital work in progress (CWIP) SR'000	Total 2019 SR'000
Cost:										
At the beginning of the year	135,283	1,121,408	157,231	63,203	135,342	79,432	14,919	3,023,662	1,771,881	6,502,361
Additions	–	714	21,707	1,477	3,215	6,665	770	–	468,632	503,180
Transfers	–	72,610	150,525	25,425	16,541	11,315	–	146,804	(423,220)	–
Transfer from investment properties (note 15)	–	169,679	6,944	–	–	–	–	–	–	176,623
Impairment (note (e) below)	–	–	–	–	–	–	–	–	(167)	(167)
Disposals	–	–	–	–	–	–	(600)	–	–	(600)
At the end of the year	135,283	1,364,411	336,407	90,105	155,098	97,412	15,089	3,170,466	1,817,126	7,181,397
Depreciation:										
At the beginning of the year	–	242,674	56,902	33,472	91,465	58,829	10,239	491,029	–	984,610
Charge for the year	–	49,997	36,285	10,663	26,414	12,678	2,721	127,999	–	266,757
Disposals	–	–	–	–	–	–	(600)	–	–	(600)
At the end of the year	–	292,671	93,187	44,135	117,879	71,507	12,360	619,028	–	1,250,767
Net book value										
At 31 December 2019	135,283	1,071,740	243,220	45,970	37,219	25,905	2,729	2,551,438	1,817,126	5,930,630

	Freehold land SR'000	Buildings SR'000	Leasehold improvements SR'000	Heavy equipment & machinery SR'000	Furniture and fixtures SR'000	Office equipment SR'000	Motor vehicles SR'000	Infrastructure assets SR'000	Capital work in progress (CWIP) SR'000	Total 2018 SR'000
Cost:										
At the beginning of the year	135,283	950,070	145,089	50,260	93,869	59,585	10,283	2,330,548	2,062,088	5,837,075
Additions	-	481	12,142	5,112	4,022	9,338	187	1,329	623,533	656,144
Transfers	-	170,857	-	7,831	37,451	10,509	4,449	691,785	(922,882)	-
Transfer from investment properties (note 15)	-	-	-	-	-	-	-	-	17,051	17,051
Impairment (note (e) below)	-	-	-	-	-	-	-	-	(7,909)	(7,909)
At the end of the year	135,283	1,121,408	157,231	63,203	135,342	79,432	14,919	3,023,662	1,771,881	6,502,361
Depreciation:										
At the beginning of the year	-	203,026	38,899	25,520	60,785	41,112	6,690	369,610	-	745,642
Charge for the year	-	39,648	18,003	7,952	30,680	17,717	3,549	121,419	-	238,968
At the end of the year	-	242,674	56,902	33,472	91,465	58,829	10,239	491,029	-	984,610
Net book value										
At 31 December 2018	135,283	878,734	100,329	29,731	43,877	20,603	4,680	2,532,633	1,771,881	5,517,751

a) Depreciation charge for the year has been allocated as follows:

	31 December 2019 SR' 000	31 December 2018 SR' 000
Cost of revenue	69,958	52,454
Others	196,799	186,514
	266,757	238,968

b) Capital work in progress mainly represents construction costs in respect of the infrastructure and other projects at the King Abdullah Economic City.

c) Capital work in progress includes advances against services, amounting to SR 128 million (2018: SR 198 million).

d) Freehold land amounting to SR 135 million (2018: SR 135 million), mainly relates to infrastructure and operating assets.

e) During the year, the Group has recorded an impairment loss of SR 0.17 million (2018: SR 7.9 million) in respect of the projects, which are not actively pursued any further.

f) Property and equipment with the gross carrying amount of SR 359 million (2018: SR 185.5 million) are fully depreciated but are still in use.

g) As at 31 December 2019, an amount of SR 96.8 million (2018: SR 108.8 million) was capitalized as borrowing cost for the construction of property and equipment.

h) The Group has transferred certain costs from/to property and equipment and investment properties based on the change in the intended use of such developments.

Notes to the Consolidated Financial Statements continued

At 31 December 2019

14. LEASES

14.1 Right-of-use assets

The estimated useful lives of the right-of-use assets for the calculation of depreciation are as follows:

	Useful lives
Buildings	3–10 years
Heavy equipment & machinery	3–4 years
Motor vehicles	2–4 years

	Buildings SR'000	Heavy equipment & machinery SR'000	Motor Vehicles SR'000	Total SR'000
Cost:				
Balance as at 1 January 2019	103,710	52,561	6,424	162,695
Additions	1,873	1,506	–	3,379
Balance as at 31 December 2019	105,583	54,067	6,424	166,074
Accumulated depreciation:				
As at 1 January 2019	4,100	17,228	1,200	22,528
Charge for the year	11,402	16,634	2,178	30,214
As at 31 December 2019	15,502	33,862	3,378	52,742
Net book value:				
As at 31 December 2019	90,081	20,205	3,046	113,332

Depreciation charge for the year has been allocated as follows:

	31 December 2019 SR'000
Cost of revenue	27,492
Others	2,722
	30,214

14.2 Lease Liabilities

At 31 December 2019, the lease liabilities are presented in the consolidated statement of financial position as follows:

	2019 SR'000
Non-current portion	80,625
Current portion	33,013
	113,638

Movement of lease liabilities:

	2019 SR'000
As at 1 January 2019 (note 5)	132,775
Additions	3,379
Financial charges (note 10)	5,265
Repayments	(27,781)
As at 31 December 2019	113,638

The aging of minimum lease payments together with the present value of minimum lease payments, as of 31 December, are as follows:

	2019	
	Minimum lease payments (SR'000)	Present value of minimum lease payments (SR'000)
Within twelve months	37,501	33,013
One to five years	54,502	44,584
More than five years	39,964	36,041
Total minimum lease payments	131,967	113,638
Less: financial charges	(18,329)	–
Present value of minimum lease payments	113,638	113,638

15. INVESTMENT PROPERTIES

The estimated useful lives of the assets for the calculation of depreciation are as follows:

	useful lives
Buildings	20–30 years
Leasehold improvements	2 years
Infrastructure assets	10–30 years

Notes to the Consolidated Financial Statements continued

At 31 December 2019

15. INVESTMENT PROPERTIES continued

	Land SR'000	Buildings SR'000	Leasehold improvements SR'000	Infrastructure assets SR'000	Capital work in progress (CWIP) SR'000	Total 2019 SR'000
Cost:						
At the beginning of the year	2,825,207	945,217	945	435,530	1,145,828	5,352,727
Additions	-	4,636	-	520	101,401	106,557
Disposals	(804)	(13,101)	-	(4,042)	(33)	(17,980)
Transfers to property and equipment (note 13)	-	(169,679)	(6,944)	-	-	(176,623)
Transfers to development properties (note 18)	(3,544)	-	-	-	-	(3,544)
Transfers	-	169,679	6,944	-	(176,623)	-
Reversal of impairment on disposal	-	4,293	-	-	-	4,293
At the end of the year	2,820,859	941,045	945	432,008	1,070,573	5,265,430
Depreciation:						
At the beginning of the year	-	136,817	945	82,817	-	220,579
Charge for the year	-	32,345	-	20,629	-	52,974
Disposals	-	(1,534)	-	(766)	-	(2,300)
At the end of the year	-	167,628	945	102,680	-	271,253
Net book value						
At 31 December 2019	2,820,859	773,417	-	329,328	1,070,573	4,994,177

	Land SR'000	Buildings SR'000	Leasehold improvements SR'000	Infrastructure assets SR'000	Capital work in progress (CWIP) SR'000	Total 2018 SR'000
Cost:						
At the beginning of the year	2,857,645	952,885	945	435,530	1,006,198	5,253,203
Additions	-	-	-	2,753	156,681	159,434
Transfers	(2,861)	(7,668)	-	(2,753)	-	(13,282)
Transfers to development properties (note 18)	(29,577)	-	-	-	-	(29,577)
Transfers to property and equipment (note 13)	-	-	-	-	(17,051)	(17,051)
At the end of the year	2,825,207	945,217	945	435,530	1,145,828	5,352,727
Depreciation:						
At the beginning of the year	-	101,249	945	65,570	-	167,764
Charge for the year	-	36,776	-	17,247	-	54,023
Disposals	-	(1,208)	-	-	-	(1,208)
At the end of the year	-	136,817	945	82,817	-	220,579
Net book value						
At 31 December 2018	2,825,207	808,400	-	352,713	1,145,828	5,132,148

a) Greenfield land, measuring approximately 168 million square meters, has been earmarked for the master development of the KAEC. This includes land measuring approximately 37 million square meters which was contributed by a shareholder as part of its capital contribution for an agreed sum of SR 1,700 million in lieu of shares of the same value in the Company (note 23). The specific allocation of the Greenfield land to be used by different projects, which could be for sale or rental, has not yet been completed. Therefore, the Greenfield land and associated costs, amounting to SR 2,407 million (2018: SR 2,412 million), has been classified as investment property. No depreciation has been charged as these comprise only freehold land. Greenfield land includes 24.7 million square meters pledged in favour of the Ministry of Finance against a long-term loan of SR 5,000 million (note 25(a)). Loans obtained from commercial banks are also secured against KAEC Greenfield land. However, legal formalities pertaining to security of such additional borrowings are in progress (note 25(b)). Greenfield land, measuring 15.95 million square meters, has been earmarked for lease to industrial customers.

b) The fair value of the Group's investment property, as at 31 December 2019, has been arrived on the basis of the valuation exercise carried out by ValuStrat (Khabeer Alathamn Alaqaria), an independent valuer not related to the Group. ValuStrat is a firm licensed by the Taqueem (Saudi Authority for Accredited Valuers) and is also regulated by the Royal Institution of Chartered Surveyors ("RICS"). Valustrat holds appropriate qualifications and relevant experience in assessing the valuation for the relevant land and properties.

To determine the fair value of land with an undetermined future use, the valuer has conducted a dynamic residual valuation approach by calculating the maximum price that a hypothetical developer and investor would pay for the subject land to achieve acceptable hurdle rates based on the highest and best use of the land and in line with current market conditions. For other properties, the fair value has been determined based on the market comparative approach that reflects recent transaction prices for similar properties or capitalization of net income method. For the net income method, the market rentals of all lettable properties are assessed by reference to the rentals achieved for the same properties as well as similar properties in the neighborhood. The capitalization rate is adopted by reference to the yield rates observed by the valuers for similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The Group uses the following hierarchy for determining and disclosing the fair values of its investment properties by valuation techniques:

	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	Total SR'000
31 December 2019	–	–	47,412,867	47,412,867
31 December 2018	–	–	47,738,807	47,738,807

Any significant movement in the assumptions used for fair valuation of investment properties such as discount rate, yield, rental growth etc. would result in significantly lower/higher fair value of these assets.

c) The Group has transferred certain costs from/to property and equipment and investment properties based on the change in the intended use of such developments.

d) Following is the breakup of investment properties, held for various purposes:

	31 December 2019 SR'000	31 December 2018 SR'000
Rental income	2,173,319	2,306,940
Currently undetermined future use	2,820,858	2,825,208
	4,994,177	5,132,148

e) As at 31 December 2019, an amount of SR 23.94 million (2018: 37.83 million) was capitalized as cost of borrowing for the construction of investment properties.

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At 31 December 2019

16. INTANGIBLE ASSETS

The movement in the intangible assets is as follows:

	31 December 2019 SR'000	31 December 2018 SR'000
<i>Cost:</i>		
At the beginning of the year	99,107	83,246
Additions	4,379	15,861
At the end of the year	103,486	99,107
<i>Amortization:</i>		
At the beginning of the year	(80,491)	(68,048)
Charge for the year	(10,479)	(12,443)
At the end of the year	(90,970)	(80,491)
Net book value	12,516	18,616

17. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES

	Effective ownership interest (%)		Balance as at	
	31 December 2019	31 December 2018	31 December 2019 SR'000	31 December 2018 SR'000
Investment in Ports Development Company ("PDC") (see note (a) below)	50%	50%	2,366,137	2,376,775
Investment in Biyouat Progressive Company for Real Estate Investment & Development ("Biyouat") (see note (b) below)	20%	20%	45,790	45,790
			2,411,927	2,422,565

a) Ports Development Company

Movement in investment in Ports Development Company ("PDC") for the year is as follows:

	31 December 2019 SR'000	31 December 2018 SR'000
Balance at the beginning of the year	2,376,775	2,342,901
Share of results for the year, net of Zakat charge	7,983	26,130
Share of other comprehensive (loss)/income	(18,621)	7,744
Balance at the end of the year	2,366,137	2,376,775

Quantitative information of PDC is as follows:

	31 December 2019 SR'000	31 December 2018 SR'000
Non-current assets	8,004,904	7,900,555
Current assets	343,798	457,100
Non-current liabilities	(2,520,969)	(2,439,445)
Current liabilities	(516,294)	(585,494)
Equity	5,311,440	5,332,716
Group's share in equity – 50% (2018: 50 %)	2,655,720	2,666,358
Elimination of share of profit on sale of land and commission income	(287,714)	(287,714)
Adjustments related to piecemeal acquisition and share of Zakat	(1,869)	(1,869)
Group's carrying amount of the investment	2,366,137	2,376,775

	31 December 2019 SR'000	31 December 2018 SR'000
Revenue	327,763	317,844
NET INCOME FOR THE YEAR	15,966	55,110
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent years	(37,242)	15,489
Total comprehensive (loss)/income for the year	(16,882)	70,600
Group's share of profit for the year, net of related Zakat charge	7,983	26,130
Group's share of other comprehensive (loss)/income for the year	(18,621)	7,744

On 14 Jumada Awal 1431H (corresponding to 29 April 2010), the Port Development Company ("PDC"), a Closed Joint Stock Company, was incorporated in the Kingdom of Saudi Arabia, which is engaged in development, operation and maintenance of the King Abdullah Port at KAEC (the Port). During 2011, the shareholders of PDC entered into an agreement, whereby, the shareholding structure and funding mechanism of PDC was agreed. As per the terms of the agreement, the Company's shareholding in PDC was agreed to be 34%. In 2012, to contribute a part of the equity funding under the agreement, the Parent Company invested SR 145 million in the form of land, infrastructure and other development cost.

On 8 October 2013, the shareholders of PDC resolved to increase the shareholding of the Parent Company to 74%. The shareholders further amended the agreement on 16 April 2014, reducing the shareholding of the Parent Company in PDC to 51%. On 17 July 2014, the shareholders of PDC amended the agreement, reducing the shareholding of Parent Company to 50%. Pursuant to the terms of the revised agreement, the shareholders of PDC have concluded that they have joint control over PDC and hence the Company has classified the investment as "Investment in an equity accounted investee".

The Company has provided a corporate guarantee along with promissory notes to a commercial bank, limited to SR 1,350 million plus any Murabaha profits due to be paid by the PDC, to allow PDC to secure Shariah compliant Murabaha facility to partially finance the construction costs of the Port. Moreover, the subject loan is also secured by pledge of the shares of the Company in PDC.

Notes to the Consolidated Financial Statements continued

At 31 December 2019

17. INVESTMENT IN EQUITY ACCOUNTED INVESTEES continued

a) Ports Development Company continued

The Company has provided a corporate guarantee to a commercial bank, limited to SR 112.5 million plus any Murabaha profits due to be paid by the PDC, to allow PDC to secure Shariah compliant commodity Murabaha facilities, having a maximum limit of SR 180 million. During the year ended 31 December 2017, PDC availed the subject Murabaha facility, amounting to SR 150 million, to finance its working capital requirements. The subject facility has been enhanced to SR 180 million during 2018. In this connection, the Company had also provided promissory notes, amounting to SR 75 million, which has been enhanced to SR 90 million during current year, plus any Murabaha profits due to be paid by the PDC.

During the year ended 31 December 2017, PDC had entered into interest rate swaps arrangement (the "Swap Contracts"), with local commercial banks, to hedge future adverse fluctuation in interest rates on its long term loan.

Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

PDC designated the Swap Contracts, at its outset, as a cash flow hedge. The Swap Contracts are intended to effectively convert the interest rate cash flow on the long term loan from a floating rate to a fixed rate, during the entire tenure of the loan agreements. Cash flow hedges which meet the strict criteria for hedge accounting are accounted for by taking the gain or loss on the effective portion of the hedging instrument to the other comprehensive income, while any ineffective portion is recognized immediately in the consolidated statement of profit or loss.

At 31 December 2019, the subject Swap Contracts had a negative fair value of SR 78.8 million (2018: SR 40.62 million), based on the valuation determined by a model and confirmed by PDC's bankers. Such fair value is included within non-current liabilities in the statement of financial position of PDC with a corresponding debit to statement of profit and loss and other comprehensive income. The Group has recorded an amount of SR 19.08 million (2018: SR 7.7 million), within other comprehensive (loss)/income of the consolidated statement of profit or loss and other comprehensive income, being the portion of its share.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item.

b) Biyoutat Progressive Company for Real Estate Investment & Development

During 2016, the Company entered into an arrangement with an entity owned by a Saudi local group to incorporate a new entity, namely Biyoutat, a Limited Liability Company (Associate), to build, own and manage a residential compound at KAEC.

The Company owns 20% shares in the share capital of Biyoutat. As per the Shareholders' agreement, the Company has also made an additional investment of SR 54 million for the development of the project. Furthermore, during 2016, the Company sold a piece of land to Biyoutat, amounting to SR 54 million. Since Biyoutat has not yet started its operations, the share of results of Biyoutat for the year are considered insignificant for the Group.

The movement in investment in Biyoutat during the year is as follows:

	31 December 2019 SR'000	31 December 2018 SR'000
Initial investment	200	200
Additional investment	53,755	53,755
Elimination of share of profit on sale of land	(8,165)	(8,165)
	45,790	45,790

18. DEVELOPMENT PROPERTIES

	31 December 2019 SR'000	31 December 2018 SR'000
Costs incurred to-date	2,095,237	2,256,283
Transferred from investments properties (note 15)	3,544	29,577
	2,098,781	2,285,860
Transfers to cost of revenue (note 7)	(252,946)	(270,324)
Provision for development properties	(1,329)	(1,329)
	1,844,506	2,014,207
Current portion of development properties	(790,126)	(411,098)
Non-current portion of development properties	1,054,380	1,603,109

Development properties include land amounting to SR 163.6 million (2018: SR 176.8 million).

As at 31 December 2019, an amount of SR 29.38 million (2018: SR 128 million) was capitalized as cost of borrowing for the construction of development properties.

The Group has transferred certain costs from investment properties to development properties based on the change in the intended use of such developments.

19. ACCOUNTS RECEIVABLES AND OTHER CURRENT ASSETS

	31 December 2019 SR'000	31 December 2018 SR'000
Gross accounts receivable	656,742	647,204
Less: Impairment loss on accounts receivable (see notes below)	(150,418)	(86,411)
	506,324	560,793
Contribution receivable	37,664	18,427
Prepayments	33,253	41,772
Advances to suppliers	17,501	32,232
VAT receivable	–	31,394
Amounts due from related parties (note 30)	7,327	15,053
Commission receivable on Murabaha term deposits	1,641	508
Others	52,951	61,359
	656,661	761,538

a) As at 31 December 2019, accounts receivable at nominal value of SR 150.4 million (2018: SR 86.4 million) were impaired. The unimpaired accounts receivables include SR 417 million (2018: SR 443 million) which are past due, more than normal collection cycle, but not impaired. Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. In addition to other collaterals in the form of promissory notes or bank guarantees, the minimum collateral against sale of property transaction is the market value of the property sold to the customer as the Group transfers property title to the customer only upon satisfactory receipt of the entire amount of the contract.

Notes to the Consolidated Financial Statements continued

At 31 December 2019

19. ACCOUNTS RECEIVABLES AND OTHER CURRENT ASSETS continued

b) Movements in the impairment loss on accounts receivable is as follows:

	31 December 2019 SR'000	31 December 2018 SR'000
At the beginning of the year	86,411	49,696
Provision for the year	64,007	37,200
Doubtful debts written-off	-	(485)
At the end of the year	150,418	86,411

As at 31 December, the ageing analysis of accounts receivables, is as follows:

	Total SR'000	Neither Past due nor impaired SR'000	Past due but not impaired				
			< 30 days SR'000	30-60 days SR'000	61-90 days SR'000	91-180 days SR'000	> 180 days SR'000
31 December 2019	656,742	34,759	28,308	12,109	14,448	51,009	516,109
31 December 2018	647,204	47,169	18,038	35,695	17,034	50,854	478,414

c) Future commitment of receivables against signed sales contracts as of 31 December 2019, amounted to SR 1,530 million (2018: SR 1,269.8 million).

d) Movements in the unbilled revenue is as follows:

	31 December 2019 SR'000	31 December 2018 SR'000
At the beginning of the year	711,467	632,778
Revenue for the year	889,017	922,977
Billing raised during the year	(523,431)	(844,288)
	1,077,053	711,467
Current portion of unbilled revenue	(362,141)	(502,344)
Non-current portion of unbilled revenue	714,912	209,123

20. MURABAHA TERM DEPOSITS WITH BANKS

	31 December 2019 SR'000	31 December 2018 SR'000
Murabaha deposits (note 21)	279,806	598,655
Short-term Murabaha deposits (note 21)	(279,806)	(548,655)
	-	50,000

21. CASH AND CASH EQUIVALENTS

	31 December 2019 SR'000	31 December 2018 SR'000
Cash and bank balances	124,587	53,977
Short-term Murabaha deposits (see note below and note 20)	279,806	548,655
	404,393	602,632

Murabaha term deposits are placed with commercial banks and yield commission at prevailing market rates.

The Company is required to maintain certain deposits/balances at 5% of amount collected from customers against sale of development properties which are deposited into escrow accounts. The balance as of 31 December 2019 amounted to SR 30.3 million (2018: SR 11.7 million). These deposits/balances are not under lien.

22. EMPLOYEES' RECEIVABLE – HOME OWNERSHIP SCHEME

In accordance with the Group's policy, until 31 December 2016, the Group used to sell built units to eligible employees under interest free finance lease arrangement for a period of twenty years. The gross value of the lease payments is recognized as a receivable under employee home ownership scheme. The difference between the gross receivable and the present value of the receivable is recognized as an unearned interest income.

	Gross receivable		Present value of gross receivable		Unearned interest income	
	31 December 2019 SR'000	31 December 2018 SR'000	31 December 2019 SR'000	31 December 2018 SR'000	31 December 2019 SR'000	31 December 2018 SR'000
Current portion	7,213	6,278	3,906	3,462	3,307	2,816
Non-current portion:						
One to five years	28,853	25,111	17,050	15,033	11,803	10,078
Over five years	86,529	79,386	67,595	62,593	18,934	16,793
	115,382	104,497	84,645	77,626	30,737	26,871
	122,595	110,775	88,551	81,088	34,044	29,687

23. SHARE CAPITAL

The Parent Company's share capital is divided into 850 million shares of SR 10 each (2018: 850 million shares of SR 10 each), allocated as follows:

	2019		2018	
	Number of Shares' 000	Capital SR'000	Number of Shares' 000	Capital SR'000
Issued for cash	680,000	6,800,000	680,000	6,800,000
Issued for consideration in kind (note 15(a))	170,000	1,700,000	170,000	1,700,000
	850,000	8,500,000	850,000	8,500,000

24. STATUTORY RESERVE

In accordance with the By-laws, approved by the shareholders during April 2017, the Company must set aside 10% of its net profit in each year, after setting-off its accumulated losses, if applicable, until it has built up a reserve equal to 30% of the share capital. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital. The reserve is not available for distribution. Since the Company has incurred net loss for the year, no such transfer has been made.

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25. LONG-TERM LOANS

	31 December 2019 SR'000	31 December 2018 SR'000
Ministry of Finance ("MoF") loan (see note (a) below)	5,000,000	5,000,000
Others (see note (b) below)	3,113,750	2,908,750
	8,113,750	7,908,750
Current portion of long-term loans (see note (a) and (b) below)	(1,557,500)	(857,500)
Non-current portion of long-term loans	6,556,250	7,051,250

a) During 2011, the Parent Company received a loan of SR 5,000 million from the Ministry of Finance ("MoF") for the development of KAEC. The loan is secured against pledge of 24.7 million sqm of the Greenfield land and carries annual commission at commercial rates and was originally repayable, with a three years grace period, in seven annual installments commencing from 01 June 2015. However, based on the Group's request submitted before the due date, the MoF, during September 2015, had rescheduled the loan by extending the grace period for an additional period of five years. Subsequent to the year-end, based on the discussions carried out with the Ministry of Finance, the MoF has rescheduled the first instalment due on June 2020 to January 2021. Hence, the principal amount is now repayable in seven annual installments, commencing from January 2021, with accrued commission payable on an annual basis.

b) During 2014, the Parent Company signed an Islamic facility agreement with a commercial bank for SR 2,000 million Murabaha liquidity finance facility that carries commission at commercial rates. The outstanding balance of the long-term loan, as at 31 December 2019, amounted to SR 976.25 million (31 December 2018: SR 1,508.75 million). As per the terms of the agreement, the loan is repayable in eight bi-annual installments from 30 June 2018 to 31 December 2021. The installments due within twelve-months, amounting to SR 532.5 million are classified as a current liability. The loan is secured against part of KAEC's greenfield land, having a value of SR 3,002 million, held by the Parent Company and an order note for SR 2,500 million.

During 2015, the Parent Company signed an Islamic facility agreement with a commercial bank for SR 1,000 million that carries commission at commercial rates. The outstanding balance of the long-term loan, as at 31 December 2019, amounted to SR 437.5 million (31 December 2018: SR 500 million). As per the terms of the agreement, the loan is repayable in eight bi-annual installments from 20 October 2019 to 20 April 2023. The installments due within twelve-months, amounting to SR 125 million, are classified as a current liability. The loan is secured against part of KAEC's greenfield land, held by the Parent Company, for a total required value of SR 1,500 million, out of which 92% has already been perfected and remaining is in progress. The subject loan is further secured by an order note of SR 1,200 million.

During 2014 and 2015, the Company signed two facility agreements with a commercial bank for SR 1,000 million each carrying commission at prevailing commercial rates. The outstanding balance of the subject loan facilities, as at December 31, 2019, amounted to SR 1,700 million (December 31, 2018: SR 900 million). As per the terms of the agreements, the loan terms are door to door 8 years with 3 years grace period starting from respective dates of the agreements. In order to comply with the Sharia principles, an additional facility of SR 250 million has been arranged by the bank linked to each of the facility, to permit the rollover (repayment and drawdown) so that the principal amount is available to the Company for the first 3 years of the loan. The installments due within twelve-months, amounting to SR 200 million, are classified as a current liability. However, discussions regarding restructuring of the loans and the repayment plans are already in progress with the respective banks. The loan facilities are secured against part of KAEC's greenfield land for a total required value of SR 3,000 million. Moreover, the subject loan facilities are further secured by order notes of SR 2,250 million.

26. SHORT-TERM LOANS

During 2018, the Company has availed a short-term facility from a commercial bank, amounting to SR 250 million, carrying commission at prevailing commercial rates, in order to finance the working capital requirements. The subject loan facility was reduced to SR 200 million during current year and is secured by a promissory note of SR 200 million. The outstanding balance of the facility, as at 31 December 2019, amounted to SR 170 million (31 December 2018: SR 150 million).

Moreover, from an existing short-term facility of SR 400 million, the Company has availed SR 150 million during current year in order to finance the working capital requirements. The subject loan facility carries commission at prevailing commercial rates and is secured by the order note of SR 2,500 million (refer note 25(b)). The outstanding balance of the facility, as at 31 December 2019, amounted to SR 150 million.

In addition to the above, the Company has a Documentary credit ("DC") facility of SR 250 million from a commercial bank. The outstanding balance, as of 31 December 2019, amounted to SR 42.7 million.

Furthermore, there is a supplementary DC facility from another commercial bank, amounting to SR 30 million. The outstanding balance of the facility, as of 31 December 2019, amounted to SR 3.7 million.

27. EMPLOYEES' TERMINAL BENEFITS

General Description of the plan

The Group operates an approved unfunded employees' terminal benefit ("ETB") plan for its employees as required by the Saudi Arabian Labour Law. The movement in ETB for the year ended is as follows:

	31 December 2019 SR'000	31 December 2018 SR'000
Balance at the beginning of the year	64,220	52,758
Included in consolidated statement of profit or loss		
Current service cost	14,421	13,257
Interest cost	2,813	1,856
	17,234	15,113
Included in consolidated statement of other comprehensive income		
Remeasurement gain arising from:		
- Financial assumptions	(448)	586
- Experience adjustments	(4,362)	(769)
Actuarial gain	(4,810)	(183)
Benefits paid	(12,776)	(3,468)
Balance at the end of the year	63,868	64,220

Actuarial assumptions

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

	2019	2018
Discount rate	2.97%	4.38%
Expected rate of future salary increase	3.5%	5%
Mortality rate	1.17%	1.17%
Employee turnover rate	Age & service based – Moderate	Age & service based – Moderate
Retirement age	60 years	60 years

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27. EMPLOYEES' TERMINAL BENEFITS continued

The sensitivity of ETB, as at 31 December, to changes in the weighted principal assumptions is as follows:

	Change in assumption by	Impact on ETB liability Increase/(decrease)			
		31 December 2019		31 December 2018	
		Increase in rate SR'000	Decrease in rate SR'000	Increase in rate SR'000	Decrease in rate SR'000
Discount rate	1%	(5,096)	5,881	(4,753)	5,481
Expected rate of future salary increase	1%	5,789	(5,118)	5,391	(4,769)
Mortality rate	10%	(17)	17	(17)	17
Employee turnover rate	10%	(579)	620	(586)	628

28. ACCOUNTS PAYABLE AND ACCRUALS

	31 December 2019 SR'000	31 December 2018 SR'000
Trade accounts payable	401,907	312,714
Accrued financial charges	218,024	155,170
Retentions payable	223,121	200,484
Contract cost accruals	132,223	117,620
Advances from customers	94,069	92,490
Amounts to be donated for charitable purposes (see note below)	44,321	49,847
Amounts due to related parties (note 30)	15,106	23,053
VAT payable	3,737	-
Accrued expenses and other payables	154,083	103,625
Unearned interest income – Home Ownership Scheme (note 22)	3,307	2,816
Unearned income	15,210	30,244
	1,305,108	1,088,063

The Board of Directors decided in 2006 to donate the amount earned on the founding shareholders' share capital contribution (before initial public offering) placed in fixed deposits maintained with a bank before placing funds under an Islamic deposit scheme. Commission earned on this deposit is added to the amount to be donated for charitable purposes.

29. ZAKAT

Charge for the year

	31 December 2019 SR'000	31 December 2018 SR'000
Current year provision	45,000	66,000

The provision for the year is based on the consolidated Zakat base of the Group.

Movement in provision

The movement in the Zakat provision is as follows:

	31 December 2019 SR'000	31 December 2018 SR'000
At the beginning of the year	156,843	153,086
Charge for the year	45,000	66,000
Payments during the year	(80,027)	(62,243)
At the end of the year	121,816	156,843

Status of assessments

The Parent Company – Emaar The Economic City

The General Authority of Zakat and Tax ("GAZT") issued Zakat assessment for the years 2006 to 2008 and claimed additional Zakat and Withholding tax differences of SR 90.4 million in addition to delay penalty. The case was under review at Board of Grievance ("BOG"). In compliance with the appeal procedures and without admitting the liability, the Company submitted a bank guarantee and paid under protest the withholding tax (WHT) difference.

The BOG did not accept the grievance on the Zakat case from the formal point of view. The Company filed a plea to the Royal court requesting the BOG to reconsider the verdict and restudy the case. The plea was not accepted by the BOG and they maintained the previous decision.

During 2019, the GAZT has issued a letter for collection of additional Zakat liability of SR 86.6 million. The Company has settled 20% of the total liability in the year 2019 and 43% of the total liability subsequent to year end. Furthermore, the GAZT has agreed to allow four monthly installments to pay the balance Zakat liability.

The WHT case was also under the review at the BOG. A decision was issued supporting the Company's objection related to delay fine. The GAZT has filed an appeal with the Royal court against the BOG's decision in respect of delay fine, which is pending adjudication.

The Company has settled the additional Zakat liabilities and finalized assessments for the years 2009 to 2011. The Company has filed the Zakat returns for the years up to 2018 and obtained the Zakat certificates.

Subsidiaries – ECIHC, IZDCL, REOM, REM, RED and EKC

ECHIC finalized its assessment up to the year 2012 and filed the Zakat returns up to the year 2018 and obtained Zakat certificates. The GAZT has requested for additional information for the years 2014 to 2018 which has been duly responded.

IZDCL finalized its Zakat status up to the year 2012. The GAZT issued Zakat assessment for the years 2013 to 2015 and claimed additional Zakat of SR 4.6 million. IZDCL has objected against the GAZT assessment, providing the supporting documents for its position. GAZT has transferred the case to the General Secretariat of Tax Committees (GSTC) and IZDCL has also registered an appeal on GSTC's portal. The GAZT has provided their comments on the appeal filed which have been duly responded to and feedback is awaited.

IZDCL has filed the Zakat returns up to the years 2018 and obtained Zakat certificates.

REOM, RED and REM have filed their Zakat returns for the period/years from 2013 to 2018 and obtained Zakat certificates.

EKC has filed the Zakat return for the period/years from 2016 to 2018 and obtained un-restricted Zakat certificate.

Notes to the Consolidated Financial Statements continued

At 31 December 2019

30. RELATED PARTY TRANSACTIONS

The Company, in the normal course of business, enters into transactions with other entities that fall within the definition of a related party contained in International Accounting Standard 24. Related parties represent major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Transactions with related parties were carried out in the normal course of business on terms that were no more favourable than those available or which reasonably be expected to be available in similar transactions with non related parties i.e., equivalent to those that prevail in arm's length transactions. In addition to note 17, following are the significant related party transactions during the period and the related balances:

Related party	Nature of transactions	Amounts of Transactions		Balance as at	
		2019 SR'000	2018 SR'000	31 December 2019 SR'000	31 December 2018 SR'000
Amounts due from related parties					
Other related parties	Lease rentals, utilities and service charges	4,616	7,349	3,211	7,941
	Sale of properties	5,640	27,762	1,650	–
Joint Venture	Lease rentals and utilities charges	1,497	1,208	971	2,241
Key management personnel	Sale of properties, utilities and service charges	1,179	186	895	203
	Lease rentals	222	–	222	–
Board of directors	Sale of properties, utilities and service charges	164	580	231	4,668
	Lease rentals	147	–	147	–
Total				7,327	15,053
Amounts due to related parties					
Other related parties	Expenses incurred on behalf of the Group	–	–	(2,619)	(2,619)
	Services provided to the Group	389	4,187	(415)	(305)
	Advance against sale of properties and leased units	–	–	(7,961)	(7,965)
	Purchase of goods	20	276	–	–
Other related parties with significant influence	Expenses incurred on behalf of the Group	–	–	(89)	(89)
Key management personnel	Remuneration	16,263	23,197	–	(7,875)
Board of directors	Remuneration and meeting fees	4,003	4,200	(4,003)	(4,200)
	Advance received against services	–	–	(19)	–
Total				(15,106)	(23,053)

Compensation of key management personnel of the Group

	31 December 2019 SR'000	31 December 2018 SR'000
Short-term employee benefits	13,159	15,981
Non-monetary benefits	346	401
Post-employment benefits	1,347	2,434
Termination benefits	1,411	2,375
Other long-term benefits	–	2,006
	16,263	23,197
Amount due to key management personnel	7,901	8,375

31. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to disclosure set out in note 17, 25 and 29, contingent liabilities and commitments, as at 31 December 2019, are described as below:

- a) The Group has outstanding commitments related to future expenditure for the development of KAEC in coming few years, amounting to SR 781 million (31 December 2018: SR 1,271 million).
- b) The Group, from time to time, is a defendant in lawsuits, which mainly represent commercial disputes. The management and the legal counsel expects a favourable outcome of all the pending litigation against the Group. Accordingly, no provision has been made in these consolidated financial statements.
- c) Operating lease commitments:

Group as lessor

The Group has entered into leases on its investment property portfolio. The future minimum rentals receivable under operating leases contracted for as at the reporting date but not recognized as receivables, are as follows:

	31 December 2019 SR'000	31 December 2018 SR'000
Within one year	49,112	53,740
After one year but not more than five years	191,348	201,941
More than five years	574,169	617,315
	814,629	872,996

32. SEGMENTAL INFORMATION

Management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Operating Segments

For management purposes, the Group is organised into three major segments namely, residential business, industrial development and hospitality and leisure. Other segments include corporate departments of the Group and businesses that individually do not meet the criteria for a reportable segment as per IFRS 8 Operating Segments.

The Executive Leadership Team is the Chief Operating Decision Maker (CODM) and monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

Notes to the Consolidated Financial Statements continued

At 31 December 2019

32. SEGMENTAL INFORMATION continued

Segments related Revenue and Profitability

	Residential business SR'000	Industrial development SR'000	Hospitality and leisure SR'000	Others SR'000	Adjustments and eliminations SR'000	Total SR'000
<i>For the year ended:</i>						
31 December 2019						
Revenue						
External customers	522,789	318,652	75,945	69,502	–	986,888
Inter-segment	14,867	4,651	31,633	97,769	(148,920)	–
	537,656	323,303	107,578	167,271	(148,920)	986,888
Results						
Cost of inventories and services recognised as an expense	(310,716)	(63,106)	(34,366)	(161,248)	(110,624)	(458,813)
Impairment loss	(493)	–	(3,564)	(55,824)	–	(59,881)
Financial charges	(300)	–	(4,424)	(232,269)	–	(236,993)
Murabaha deposit income	56	113	6	616	–	791
Depreciation	(41,274)	(23,846)	(84,874)	(199,962)	–	(349,956)
Amortisation	(235)	–	(20)	(10,224)	–	(10,479)
Share of results of equity accounted investee	–	–	–	7,983	–	7,983
Other income/(expenses)	19,872	32,810	(11,545)	60,878	–	102,015
Unallocated other income/(expenses)	–	–	–	–	–	(445,363)
Loss before Zakat						(463,808)
<i>For the year ended:</i>						
31 December 2018						
Revenue						
External customers	561,626	251,047	42,253	153,308	–	1,008,234
Inter-segment	13,004	4,068	34,180	85,136	(136,388)	–
	574,630	255,115	76,433	238,444	(136,388)	1,008,234
Results						
Cost of inventories and services recognised as an expense	(348,097)	(49,826)	(3,942)	(178,499)	85,751	(494,613)
Impairment loss	(880)	–	(1,593)	(47,362)	–	(49,835)
Financial charges	(48)	(3)	(624)	(58,978)	–	(59,653)
Murabaha deposit income	2,572	2,702	1,777	686	–	7,737
Depreciation	(35,473)	(21,902)	(49,533)	(185,511)	–	(292,419)
Amortisation	(41)	–	–	(12,402)	–	(12,443)
Share of results of equity accounted investee	–	–	–	26,130	–	26,130
Other income/(expenses)	41,228	90,353	1,295	77,033	–	209,909
Unallocated other income/(expenses)	–	–	–	–	–	(414,635)
Loss before Zakat						(71,588)

33. FINANCIAL INSTRUMENTS RISK MANAGEMENT

Overview

The Group's activities may expose it to a variety of financial risks. The Group's overall risk management program focuses on robust liquidity management as well as monitoring of various relevant market variables, thereby consistently seeking to minimize potential adverse effects on the Group's financial performance.

The Group may expose to the following risks from its use of financial instruments:

- a) Credit risk;
- b) Commission rate risk;
- c) Currency risk; and
- d) Liquidity risk.

This note presents information about the Group's possible exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

The Board of Directors has an overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's senior management are responsible for developing and monitoring the Group's risk management policies and report regularly to the Board of Directors on their activities.

The Group's risk management policies (both formal and informal) are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group's principal financial liabilities comprise of accounts payable, lease liabilities, other liabilities and term loans. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include investment in equity accounted investees, employees' receivable – home ownership scheme, receivables, murabaha term deposits with banks and cash and cash equivalents.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below:

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is exposed to credit risk principally from its accounts receivables and other receivables along with murabaha term deposits with banks.

Customer credit risk is assessed by the Group according to the Group's established policy, procedures and controls relating to customer credit risk management. Credit quality of a customer is assessed based on a credit rating process.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for various customer segments with similar loss patterns. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors (such as GDP forecast and industry outlook) affecting the ability of the customers to settle the receivables. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Notes to the Consolidated Financial Statements continued

At 31 December 2019

33. FINANCIAL INSTRUMENTS RISK MANAGEMENT continued

a) Credit risk continued

The Group seeks to manage its credit risk with respect to customers by monitoring outstanding receivables. The sale agreements with customers provide that the title to the property is transferred to the customers only upon the receipt of complete sale price. The five largest customers account for 11.5 % (2018: 12.3%) of outstanding accounts receivable as at 31 December 2019. The Group manages its exposure to credit risk with respect to murabaha term deposits with banks by diversification and investing with counterparties with sound credit rating. Payment term varies from product to product with some exceptions at the customer level.

With respect to credit risk arising from the other financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Group's gross maximum exposure to credit risk at the reporting date is as follows:

	31 December 2019 SR'000	31 December 2018 SR'000
Accounts receivables	756,325	742,551
Murabaha term deposits with banks	–	50,000
Cash and cash equivalents	404,393	602,632
	1,160,718	1,395,183

Excessive risk of concentration

Concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of risk is managed through focus on the maintenance of a diversified portfolio. In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

b) Commission rate risk

Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates.

The Group's exposure to the risk of changes in market commission rates may relate primarily to the Group's long term loans and murabaha term deposits with banks with floating commission rates. The Group manages the commission rate risk by regularly monitoring the commission rate profiles of its commission bearing financial instruments.

At the reporting date, the Group does not have any murabaha term deposits with banks at floating commission rates. Accordingly, only long term loans are exposed to floating commission rates.

Commission rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in commission rates on long term loans. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

	Increase/decrease in basis points	Effect on profit before Zakat SR'000
2019	+100	(64,085)
	-100	64,085
2018	+100	(14,310)
	-100	14,310

The assumed movement in basis points for the commission rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility than in prior years.

The weighted average rate for the Group's term loans is 4.2% (approx).

c) Currency risk

Currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The Group did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars. As US Dollar is pegged to Saudi Riyal, the Group is not exposed to significant currency risk.

d) 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 an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments. The cash flows, funding requirements and liquidity of Group companies are monitored on a centralised basis, under the control of Group Treasury. The objective of this centralised system is to optimise the efficiency and effectiveness of the management of the Group's capital resources.

The Group has additional approved facilities (refer note 25) and is currently in the process to withdraw appropriate required amounts in the first half of 2020. Furthermore, discussions regarding the restructuring of the loans and repayment plans are already in progress with the respective banks.

Moreover, subsequent to year-end, the Ministry of Finance (MOF) has rescheduled the first instalment due on June 2020 to January 2021. Hence, the principal amount is now repayable in seven annual instalments, commencing from January 2021, with accrued commission payable on an annual basis.

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

Notes to the Consolidated Financial Statements continued

At 31 December 2019

33. FINANCIAL INSTRUMENTS RISK MANAGEMENT continued

d) Liquidity risk continued

	Less than 3 months SR'000	3 to 12 months SR'000	More than 12 months SR'000	Total SR'000
31 December 2019				
Loans	–	1,223,898	7,256,250	8,480,148
Lease liabilities	–	37,501	94,466	131,967
Accounts payable and accruals	–	1,207,732	–	1,207,732
	–	2,469,131	7,350,716	9,819,847
31 December 2018				
Loans	150,000	857,500	7,051,250	8,058,750
Accounts payable and accruals	–	962,513	–	962,513
	150,000	1,820,013	7,051,250	9,021,263

34. CAPITAL MANAGEMENT

Capital includes equity attributable to the ordinary equity holders of the Parent Company. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The primary objective of the Group's capital management strategy is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. At 31 December 2019, the Group's gearing ratio is 54% (2018: 50%).

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call borrowings. There have been no breaches of the financial covenants of any borrowings in the current year. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

35. FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in 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).

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

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

As at 31 December 2019 and 31 December 2018, the fair values of the Group's financial instruments are estimated to approximate their carrying values and are classified under level 3 of the fair value hierarchy. No significant inputs were applied in the valuation of accounts receivables as at 31 December 2019 and 31 December 2018.

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

36. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Changes in liabilities arising from financing activities, including long term loans and unearned financing component on long term receivables, are disclosed in the consolidated statement of cash flows.

37. MATERIAL SUBSIDIARIES

The following table summarizes the statement of financial position of these subsidiaries as at 31 December 2019. This information is based on the amounts before inter-company elimination.

	ECIHC SR'000	IZDCL SR'000	REOM SR'000	REM SR'000	RED SR'000
Total assets	5,343,551	1,333,159	1,593,207	522,419	2,035,550
Total liabilities	22,715	100,269	328,604	94,076	660,933
Total equity	5,320,836	1,232,890	1,264,603	428,343	1,374,617

The following table summarizes the statement of financial position of these subsidiaries as at 31 December 2018. This information is based on the amounts before inter-company elimination.

	ECIHC SR'000	IZDCL SR'000	REOM SR'000	REM SR'000	RED SR'000
Total assets	4,411,353	1,169,945	1,480,816	547,564	1,924,006
Total liabilities	5,443	75,848	108,136	78,358	471,800
Total equity	4,405,910	1,094,097	1,372,680	469,206	1,452,206

Notes to the Consolidated Financial Statements continued

At 31 December 2019

37. MATERIAL SUBSIDIARIES continued

The following table summarizes the statement of profit and loss of these subsidiaries for the year ended 31 December 2019. This information is based on the amounts before inter-company elimination.

	ECIHC SR'000	IZDCL SR'000	REOM SR'000	REM SR'000	RED SR'000
Revenue	6,625	209,900	94,053	36,863	22,869
(Loss)/profit for the year	(2,050)	139,166	(108,311)	(41,154)	(81,213)
Total comprehensive (loss)/income for the year	(2,086)	138,793	(108,028)	(40,784)	(77,837)

The following table summarizes the statement of profit and loss of these subsidiaries as at 31 December 2018. This information is based on the amounts before inter-company elimination.

	ECIHC SR'000	IZDCL SR'000	REOM SR'000	REM SR'000	RED SR'000
Revenue	5,750	155,388	81,532	45,220	14,702
Profit/(loss) for the year	(121,228)	60,506	(48,738)	(46,953)	(82,849)
Total comprehensive (loss)/income for the year	(122,727)	60,308	(49,915)	(47,258)	(82,713)
Attributable to:					
Owner of the parent	(122,693)	59,929	(49,414)	(46,520)	(81,104)
Non-controlling interest	(34)	379	(501)	(738)	(1,609)

38. SUBSEQUENT EVENTS

The spread of novel coronavirus (COVID-19) across multiple geographies was confirmed in early 2020, causing significant macro-economic uncertainty, disruptions to businesses and economic activities. The Group considers this outbreak to be a non-adjusting post balance sheet event. At this early stage, the Group is in the process of assessing any potential impact. The management and those charged with governance will continue to monitor the situation and accordingly update all stakeholders as soon as more information is available. Changes in circumstances may require enhanced disclosures or recognition of adjustments in the condensed interim consolidated financial statements of the Group for the subsequent periods in the financial year 2020.

39. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized to issue by the Board of Directors on 23 Rajab 1441H, Corresponding to 18 March 2020.