EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020
with
INDEPENDENT AUDITOR'S REPORT

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
31 December 2020

Contents **Page No.**

KPMG Professional Services
Zahran Business Center
Prince Sultan Street
P.O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia
Headquarter in Riyadh

Commercial Registration No 4030290792

كي بي إم جي للاستشارات المهنية
مركز الزهران للأعمال
شارع الأمير سلطان
ص.ب 55078
جـده 21534
المملكة العربية السعودية
المركز الرئيسي الرياض

سجل تجاري رقم 4030290792

Independent Auditor's Report

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company)

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 2020, 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 2020, 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.

Material Uncertainty related to Going Concern

We draw attention to Note 3 of the consolidated financial statements, which indicates that the Group incurred a net loss of SR 1,248 million during the year ended 31 December 2020 and, as of that date, the Group's current liabilities exceeded its current assets by SR 3,230 million. These events or conditions, along with other matters as set forth therein, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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. In addition to the matter described in the Material Uncertainty related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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: • the analysis of whether the contracts comprise one or more performance obligations; • determining whether the performance obligations are satisfied over time or at a point in time; • estimation of total costs required to meet performance obligations under the contracts with customers. Refer to note 4 of the consolidated financial statements for the accounting policy related to revenue recognition and note 7 for the disclosure related to revenue.	In responding to this key audit matter, our procedures included the following: • Obtained an understanding of the process and key controls surrounding the revenue recognition process. • 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 and 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. • On a sample basis, we assessed the appropriateness of percentage of the completion of the construction of properties by reference to costs incurred to date compared to the estimated total cost, where the performance obligation is satisfied over time. • Performed test of details, on a sample basis, to determine whether the costs incurred to date on developments are recorded appropriately. We also checked the allocation of these costs to sold and un-sold units based on the relative area of the respective project. • Evaluated the Group's forecasting accuracy associated with the project costs and estimating costs to complete. • 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.

<table>
<tr><th>The key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>
Impairment review of investment properties and property and equipment
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.
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.
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 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.
In addition to the above, the Group involves third party valuers to carry out valuations for its investment properties and property and equipment, to assess the fair value of its investment properties.
Refer to note 4 to the consolidated financial statements for the accounting policy for impairment of non-current assets, notes 14 & 16 for disclosures related to property and equipment and investment properties, respectively.
</td><td>
In order to evaluate management's assessment of impairment, we performed the following:

Discussed with the management the process of identifying impairment indicators and results of the assessment.
Reviewed the appropriateness of management's identification of CGUs.
Involved our internal valuation specialists to assess managements' impairment assessment, including reviewing the assumptions underlying the value in use calculations. 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.
Performed sensitivity analysis on significant assumptions to evaluate the extent of the impact of changes in the key assumptions and the conclusion reached by the management.
Assessed the qualifications and expertise of the third party valuers, involved in the valuation of investment properties and property and equipment 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.

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Independent Auditor's Report

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (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.

Those charged with Governance, the Board of Directors, are responsible for overseeing the Group's financial reporting process.

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

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

Independent Auditor's Report

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

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

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 the 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.

Independent Auditor's Report

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

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

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

KPMG Professional Services

Ebrahim Oboud Baeshen
License No. 382

Jeddah, 31 March 2021
Corresponding to 18 Shaban 1442H

كي . بي . إم . جي للإستشارات المهنية
Lic No. 46
C.R. 4030290792
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ترخيص رقم ٤٦
KPMG Professional Services

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2020

	Notes	*2020* *SR'000*	*2019* *SR'000* (Restated)
Revenue	7	**547,287**	946,807
Cost of revenue	8	**(866,316)**	(644,819)
GROSS (LOSS) / PROFIT		**(319,029)**	301,988
EXPENSES			
Selling and marketing	9	**(79,676)**	(79,491)
General and administration	10	**(277,094)**	(290,652)
Impairment loss	14, 16, 20	**(167,960)**	(59,881)
Depreciation	14 (a), 15.1	**(191,786)**	(199,521)
Amortisation	17	**(8,094)**	(10,479)
LOSS FROM MAIN OPERATIONS		**(1,043,639)**	(338,036)
OTHER INCOME / (EXPENSES)			
Murabaha deposit income		**2,536**	791
Financial charges	11	**(315,568)**	(268,736)
Share of results of equity accounted investee	18 (a)	**48,065**	7,983
Other income, net	12	**115,242**	109,607
LOSS FOR THE YEAR BEFORE ZAKAT		**(1,193,364)**	(488,391)
Zakat	31	**(55,000)**	(45,000)
NET LOSS FOR THE YEAR		**(1,248,364)**	(533,391)
OTHER COMPREHENSIVE (LOSS) / INCOME			
Items that will be reclassified to consolidated statement of profit or loss in subsequent periods:			
Share of other comprehensive loss from equity accounted investee	18 (a)	**(14,170)**	(18,621)
Items that will not be reclassified to consolidated statement of profit or loss in subsequent periods:			
Re-measurement gain on defined benefit obligations	29	**3,552**	4,810
		(10,618)	(13,811)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(1,258,982)**	(547,202)
LOSS PER SHARE			
Basic and diluted loss per share attributable to ordinary equity holders of the Parent Company (in SR per share)	13	**(1.47)**	(0.63)

The attached notes 1 to 41 form part of these consolidated financial statements.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	Notes	***2020 SR'000***	*2019 SR'000* (Restated)	*2018 SR'000* (Restated)
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	14	**5,609,660**	5,879,747	5,466,868
Right-of-use assets	15.1	**84,250**	113,332	-
Investment properties	16	**4,906,277**	5,045,060	5,183,031
Unbilled revenue	21	**300,848**	630,975	183,901
Development properties	19	**1,315,494**	922,763	1,458,324
Intangible assets	17	**7,877**	12,516	18,616
Investment in equity accounted investees	18	**2,445,822**	2,411,927	2,422,565
Employees' receivable - Home Ownership Scheme	24	**117,848**	115,382	104,497
TOTAL NON-CURRENT ASSETS		**14,788,076**	15,131,702	14,837,802
CURRENT ASSETS				
Current portion of employees' receivable - Home Ownership Scheme	24	**7,785**	7,213	6,278
Unbilled revenue	21	**444,610**	413,144	508,395
Development properties	19	**145,153**	720,845	347,079
Accounts receivables and other current assets	20	**654,776**	656,661	761,538
Murabaha term deposits with banks	22	**101,358**	-	50,000
Cash and cash equivalents	23	**174,904**	404,393	602,632
TOTAL CURRENT ASSETS		**1,528,586**	2,202,256	2,275,922
TOTAL ASSETS		**16,316,662**	17,333,958	17,113,724

The attached notes 1 to 41 form part of these consolidated financial statements.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2020

	Notes	***2020***	*2019*	*2018*
		SR'000	*SR'000*	*SR'000*
			(Restated)	(Restated)
EQUITY AND LIABILITIES				
EQUITY				
Share capital	25	**8,500,000**	8,500,000	8,500,000
Statutory reserve	26	**11,536**	11,536	11,536
Accumulated losses		**(2,668,263)**	(1,409,281)	(861,470)
TOTAL EQUITY		**5,843,273**	7,102,255	7,650,066
NON-CURRENT LIABILITIES				
Long-term loans	27	**5,475,161**	6,556,250	7,051,250
Lease liabilities	15.2	**51,319**	80,625	-
Employees' terminal benefits	29	**61,937**	63,868	64,220
Unearned financing component on long term receivables		**93,906**	116,388	68,911
Unearned interest income - Home Ownership Scheme	24	**31,977**	30,737	26,871
TOTAL NON-CURRENT LIABILITIES		**5,714,300**	6,847,868	7,211,252
CURRENT LIABILITIES				
Accounts payable and accruals	30	**1,510,420**	1,305,108	1,088,063
Accrued Zakat	31	**108,687**	121,816	156,843
Current portion of long-term loans	27	**2,626,250**	1,557,500	857,500
Short-term loans	28	**472,933**	366,398	150,000
Lease liabilities	15.2	**40,799**	33,013	-
TOTAL CURRENT LIABILITIES		**4,759,089**	3,383,835	2,252,406
TOTAL LIABILITIES		**10,473,389**	10,231,703	9,463,658
TOTAL EQUITY AND LIABILITIES		**16,316,662**	17,333,958	17,113,724

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

	Share capital (“000”)	*Statutory reserve* (“000”)	*Accumulated losses* (“000”)	*Total Equity* (“000”)
Balance as at 31 December 2019	8,500,000	11,536	(1,157,305)	7,354,231
Adjustment on application of IAS 23 – Agenda decision (Note 5)	-	-	(251,976)	(251,976)
Balance as at 31 December 2019 (Restated)	8,500,000	11,536	(1,409,281)	7,102,255
Net loss for the year	-	-	(1,248,364)	(1,248,364)
Other comprehensive loss for the year	-	-	(10,618)	(10,618)
Total comprehensive loss for the year	-	-	(1,258,982)	(1,258,982)
Balance as at 31 December 2020	**8,500,000**	**11,536**	**(2,668,263)**	**5,843,273**
Balance as at 31 December 2018	8,500,000	11,536	(634,077)	7,877,459
Adjustment on application of IAS 23 – Agenda decision (Note 5)	-	-	(227,393)	(227,393)
Balance as at 31 December 2018 (Restated)	8,500,000	11,536	(861,470)	7,650,066
Adjustment on initial application of IFRS 16	-	-	(609)	(609)
Adjusted balance as at 1 January 2019	8,500,000	11,536	(862,079)	7,649,457
Net loss for the year	-	-	(533,391)	(533,391)
Other comprehensive loss for the year	-	-	(13,811)	(13,811)
Total comprehensive loss for the year	-	-	(547,202)	(547,202)
Balance as at 31 December 2019	**8,500,000**	**11,536**	**(1,409,281)**	**7,102,255**

The attached notes 1 to 41 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 SR'000	2019 SR'000 *(Restated)*
OPERATING ACTIVITIES			
Loss for the year before Zakat		**(1,193,364)**	(488,391)
Adjustments to reconcile loss for the year before Zakat to net cash flows:			
Depreciation	14,15,16	**341,912**	349,945
Impairment loss	14,16,20	**264,989**	59,881
Amortization	17	**8,094**	10,479
Financial charges	11	**315,568**	268,736
Share of results of equity accounted investees	18	**(48,065)**	(7,983)
Murabaha deposit income		**(2,536)**	(791)
Unwinding of unearned interest income		**(39,495)**	(2,622)
Gain on disposal of investment properties	12	**(5,717)**	(38,297)
Gain on disposal of property and equipment		**-**	140
Employees' benefit expense – Home Ownership Scheme		**8,264**	6,979
Provision for development properties	19	**137,622**	-
Provision for employees' terminal benefits	29	**15,930**	17,234
		(196,798)	175,310
Working capital adjustments			
Employees' receivable – Home Ownership Scheme		**(10,062)**	(18,799)
Unbilled revenue, net		**298,661**	(367,090)
Development properties		**110,347**	179,626
Accounts receivables and other current assets		**(84,991)**	42,003
Accounts payable and accruals		**88,834**	151,957
Net cash generated from operations		**205,991**	163,007
Financial charges paid		**(191,175)**	(318,979)
Finance charges paid on lease liabilities		**(3,958)**	(5,265)
Zakat paid	31	**(68,129)**	(80,027)
Employees' terminal benefits paid	29	**(14,309)**	(12,776)
Net cash used in operating activities		**(71,580)**	(254,040)
INVESTING ACTIVITIES			
Investment in Murabaha term deposits		**1,481,554**	(8,860,894)
Murabaha term deposit encashment		**(1,582,359)**	8,910,894
Murabaha deposit income		**2,536**	1,924
Additions to property and equipment		**(144,002)**	(378,910)
Additions to investment properties	16	**(12,168)**	(106,557)
Proceeds from sale of investment properties		**13,023**	46,506
Proceeds from disposal of property and equipment		**-**	140
Additions to intangible assets	17	**(3,455)**	(4,379)
Net cash used in investing activities		**(244,871)**	(391,276)
FINANCING ACTIVITIES			
Proceeds from loans		**256,946**	1,666,398
Repayments of loans		**(162,750)**	(1,245,000)
Movement in unearned interest income		**17,013**	53,967
Repayment of short term lease liabilities		**-**	(507)
Repayment of lease liabilities		**(24,247)**	(27,781)
Net cash generated from financing activities		**86,962**	447,077
DECREASE IN CASH AND CASH EQUIVALENTS		**(229,489)**	(198,239)
Cash and cash equivalents at the beginning of the year	23	**404,393**	602,632
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	23	**174,904**	404,393

The attached notes 1 to 41 form part of these consolidated financial statements.

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.

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 Group continues to assess the impact of COVID -19 on its operations on regular basis. However, the outbreak is evolving rapidly, due to which there is a material uncertainty around the expected duration and potential impact on the overall economy and also on the operations of the Group. Consequently, it is challenging to assess the impact of such an evolving condition with certainty at this stage, considering the limited economic information available to determine the impact of the outbreak on the wider economy and the real estate sector.

The Group has assessed that the current situation would impact key estimates used in determining the net realisable value of development properties, expected credit loss from accounts receivables and contract assets, cost to complete the projects and the fair value of property and equipment and investment properties. This is predominantly on account of decline in demand and sale price of development properties. The Group has exercised significant judgment in evaluating the impact of the outbreak and shall consider reassessing such judgments and estimates in subsequent periods as the situation evolves.

However, in the view of the current uncertainty due to COVID-19, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments (refer note 40).

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 customers, 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgements (continued)

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.

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 29.

Estimations and assumptions

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 20.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimations and assumptions (continued)

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.

Going concern
The Group incurred a net loss of SR 1,248 million during the year ended 31 December 2020, and, as of that date, the Group's accumulated losses are SR 2,668 million, which exceeds 20% of the share capital. In addition to this, the current liabilities exceeded its current assets by SR 3,230 million. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

This was further exacerbated by the outbreak of novel coronavirus (COVID-19), classified as a pandemic in March 2020, causing significant macro-economic uncertainty and disruptions to economic activities. The extent to which the COVID-19 pandemic will affect the Company's financial position, results of operations and cash flows is difficult to predict with certainty and depends on numerous evolving factors, including the duration and scope of the pandemic; government, social, business and other actions that have been and will be taken in response to the pandemic; and the effect of the pandemic on short and long-term general economic conditions.

The Management and those charged with Governance (TCWG) have actively responded to changes in market demand and timely adjusted its operating strategy. For most of the 2020 financial year, the Group's operations were severely impacted by the actions taken by governments to address the health impacts of the COVID-19 global pandemic. This included imposing travel restrictions and international and domestic border closures, which have significantly disrupted air travel. The COVID-19 Outbreak has impacted the Group across its segments (real estate and hospitality) which is reflected in its financial results for the year ended 31 December 2020.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimations and assumptions (continued)

Going concern (continued)

Furthermore, the Management performed a comprehensive assessment of the directional impact of COVID 19 on the Group's core operations (see note 40) and undertook various measures aimed at addressing the anticipated operational challenges and liquidity gaps. The Management is currently exploring number of options available to them to obtain sufficient finance to meet the funding requirements and the scheduled repayments to the lenders.

These include, among others, restructuring of current debt obligations and obtaining additional financing facilities. Furthermore, discussions regarding the restructuring of the loans, repayment plans and debt conversion are already in progress with the respective lenders.

Key highlights of the mitigation plan are described below:

Aspect	Description	Measures taken
Debt restructuring	Loan due to Ministry of Finance ("MoF") – note 27(a). *(Principal amount: SR 5,000 million, amount included under current liabilities: SR 1,400 million)*	In January 2020, the MoF had rescheduled the first instalment, which was due in June 2020, to January 2021 with the principal amount repayable in seven instalments, commencing from January 2021, and the accrued commission payable on an annual basis. Currently, the Group is in discussions with the MoF for rescheduling the principal repayments over a 10 years period, structured as 3 years grace period and repayment over 7 years and further financial support of SR 566 million. Subsequent to the year end, on 20 January 2021, the Group has received communication from MoF for deferral of installment due as on 01 January 2021 and accrued commission total amounting to SR 1,000 million to 31 January 2021. Discussions are underway to finalize the conversion of loan to equity, as announced, amounting to SR 2,833 million, rescheduling of remaining loan amount and further financial support, as requested earlier.
	Loan due to commercial bank – note 27(b) *(Principal amount: SR 1.7 billion, amount included under current liabilities: SR Nil)*	During the year ended 31 December 2020, the Company has signed revised facility agreement with the commercial bank for the outstanding facility amounting to SR 1,700 million. Hence, the principal amount is now repayable, after a grace period of 3 years from 2020 to 2022, in multiple semi-annual unequal instalments from 2023 to 2030.
	Loan due to Commercial bank – note 27(b) *(Principal amount: SR 437.5 million, amount included under current liabilities: SR 250 million)*	During the year ended 31 December 2020, the Group has requested the lender to restructure its borrowing by deferring the repayments falling due within the next 12 months, and rescheduling the repayment of the remaining balances over ten years, structured as 3 years grace period, and repayment over 7 years starting from April 2023 to October 2029 in semi-annual instalments. The lender has already deferred the repayments due in April 2020 and October 2020 to April 2021. Subsequent to the year end, on 03 March 2021, the Group received a letter from the lender confirming approval of EEC's restructuring request. The lender's proposed re-structuring terms are awaiting Board of Directors approval.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimations and assumptions (continued)

Going concern (continued)

Aspect	Description	Measures taken
Debt restructuring (continued)	Loan due to commercial bank – note 27(b) *(Principal amount: SR 976.25 million, amount included under current liabilities: SR 976.25 million.)*	During the year ended 31 December 2020, the Group has requested the lender to restructure its borrowing by deferring the repayments falling due within the next 12 months and rescheduling the repayment of the remaining balances over ten years, structured as 3 years grace period from 2020 to 2022 and repayment over 7 years in semi-annual instalments from 2023 to 2030. The lender has deferred the repayments due on 30 June 2020 and 31 December 2020 to 30 April 2021; pending approval of the requested restructuring plan.
Working capital facility rearrangement	Working capital facility due to commercial bank – note 28. (Principal amount: SR 170 million)	During the year ended 31 December 2020, the Group has signed a revised facility letter agreement for working capital facility amounting to SR 170 million, restructured to a medium term loan, and to be repaid in 8 equal semi-annual instalments over 4 years starting 28 February 2021, together with specific security collaterals and covenants. Pledging of the plots identified as collateral was completed subsequent to the year end.
Debt to equity conversion	Conversion of a portion of MOF loan to equity	The Group has entered into a Subscription Agreement dated 31 August 2020 between the Group, its warrantors, and Public Investment Fund ("PIF"), the completion of which is subject to a number of conditions including the novation of part of the MOF loan to the PIF and the legal and regulatory formalities. Additionally, discussions are ongoing between the MoF and PIF with respect to novation of part of the loan due to MoF, pursuant to the loan agreement entered into with MoF dated 20/06/1432H. (corresponding to 23 May 2011) as amended on 17/08/1436H. (corresponding to 4 June 2015), with a total amount of SR 2,833,333,340 (the "Novation"). Thereafter, pursuant to the Subscription Agreement, PIF will enter as an investor in the Company through issuance of 283,333,334 new shares in the Company, at the nominal value of SR 10 per share, against the entire debt owed by the Company to PIF pursuant to the Novation. The Subscription Agreement, subject to completion of the legal and regulatory formalities, will result in the Capital Increase and settlement of the entire debt owed by the Group to PIF pursuant to the Novation amounting to SR 2,833,333,340.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimations and assumptions (continued)

Going concern (continued)

Aspect	Description	Measures taken
Cost optimization	Operational performance	The Group has commenced an exercise to identify operational areas for cost optimization. Various measures are being considered to preserve cash and improve the overall liquidity position including real estate financing and various cost optimization initiatives.

Based upon the current consolidated statement of financial position of the Group, detailed Group forecasts were prepared using various scenarios to assess the sensitivity of key assumptions used and all reasonably probable cashflows with such timing and amount, including forward-looking assumptions as supported by the circumstances and facts available, as of the date of issuance of these consolidated financial statements, including the impact of COVID 19, the on-going restructuring of debt, the Management and TCWG remain confident that appropriate and sufficient facilities will be in place and the debt to equity conversion (see above “conversion of a portion of MOF loan to equity”) will be successfully completed. However, there are no signed restructuring agreements yet in place except as disclosed in the mitigation plan, and the legal and regulatory formalities related to the debt to equity conversion are in progress.

For the above reasons, the consolidated financial statements have been prepared on a going concern basis. Should the Group not obtain financing, the rescheduled payment terms and the debt to equity conversion be unsuccessful, there exists a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern, and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not contain any adjustments which may be required if the Group was unable to continue as a going concern.

Furthermore, the Management cannot preclude the possibility that extended periods of economic strain on the economic environment the Group operates in, may have a potential effect on the Group, and its financial position and operating results, in the medium and longer-term. The changes in circumstances may require further enhanced disclosures in the financial statements of the Group for subsequent periods.

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 change in accounting policy of borrowing costs due to the adoption of Agenda decision - Over Time Transfer of Constructed Good - IAS 23 Borrowing Costs (refer note 5).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2020. 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Consolidation (continued)

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)***	
			2020	2019
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 were completed in 2019 and 2020.

Refer to note 18 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 of accounting. Under the equity method of accounting, 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in equity accounted investees (associate and joint venture) (continued)

After application of the equity method of accounting, 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Value added tax and real estate transaction tax
During the year 2020, the General Authority for Zakat and Tax (GAZT) announced that pursuant to the Royal Decree No. (A/84) dated 1 October 2020, the disposal of real estate in the Kingdom of Saudi Arabia by way of certain transactions resulting in a transfer of legal ownership or possession will be VAT exempt and subject to a 5% real estate transaction tax (RETT). RETT is applicable on the transaction that took place on or after 4 October 2020. However, as per the RETT law, the licensed real estate developer can recover input VAT on the property sold after 4 October 2020.

Other than disposal of real estate transactions covered under RETT law, the Group is subject to Value Added Tax ("VAT") for the supply of other goods and services 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 other than claimable under RETT law ("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 Proportional Default Rate Formula.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Recognition and measurement (continued)

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of property and equipment may not be recoverable. Whenever the carrying amount of property and equipment exceeds their recoverable amount, an impairment loss is recognised in the consolidated statement of profit or loss and other comprehensive income. The recoverable amount is the higher of fair value less costs to sell of property and equipment and the value in use. The fair value less costs to sell is the amount obtainable from the sale of property, plant and equipment in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of property and equipment and from its disposal at the end of its useful life.

Reversal of impairment losses other than goodwill impairment recognised in the prior years are recorded when there is an indication that the impairment losses recognised for the property and equipment no longer exist or have reduced.

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

Right-of-use assets:
The Group recognises 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 is 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.

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).

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (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.

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, other than development properties, 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 or construction of an asset, other than development properties, 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

The Group determines at each reporting date whether there is any objective evidence that the investment properties are impaired. Whenever the carrying amount of an investment property exceeds their recoverable amount, an impairment loss is recognised in the consolidated statement of profit or loss and other comprehensive income. The recoverable amount is the higher of investment property's fair value less cost to sell and the value in use.

Reversal of impairment losses recognised in the prior years is recorded when there is an indication that the impairment losses recognised for the investment property no longer exist or have reduced.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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 based on the market prices at the reporting date, 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets (continued)

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial liabilities (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 34.

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. CHANGE IN SIGNIFICANT ACCOUNTING POLICY

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 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, 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. The Group adopted the agenda decision and the effect arising due to the change of accounting policy on the consolidated financial statements is as follows:

Previous policy

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.

Revised policy

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, other than development properties, 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 or construction of an asset, other than development properties, 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.

5. CHANGE IN SIGNIFICANT ACCOUNTING POLICY (continued)

	As previously reported SR'000	Adjustments under IAS 23 SR'000	Restated amounts SR'000
	As at 31 December 2019		
Statement of Financial Position			
Development properties – non-current portion	1,054,380	(131,617)	922,763
Development properties – current portion	790,126	(69,281)	720,845
Unbilled revenue – non-current portion	714,912	(83,937)	630,975
Unbilled revenue – current portion	362,141	51,003	413,144
Total assets	17,567,790	(233,832)	17,333,958
Unearned financing component on long term receivables	(98,244)	(18,144)	(116,388)
Total non-current liabilities	(6,829,724)	(18,144)	(6,847,868)
Accumulated losses	(1,157,305)	(251,976)	(1,409,281)

	As previously reported SR'000	Adjustments under IAS 23 SR'000	Restated amounts SR'000
	As at 31 December 2018		
Statement of Financial Position			
Development properties - non-current portion	1,603,109	(144,785)	1,458,324
Development properties - current portion	411,098	(64,019)	347,079
Unbilled revenue – non-current portion	209,123	(25,222)	183,901
Unbilled revenue – current portion	502,344	6,051	508,395
Total assets	17,341,699	(227,975)	17,113,724
Unearned financing component on long term receivables	(69,493)	582	(68,911)
Total non-current liabilities	(7,211,834)	582	(7,211,252)
Accumulated losses	(634,077)	(227,393)	(861,470)

	As previously reported SR'000	Adjustments under IAS 23 SR'000	Restated amounts SR'000
Statement of Profit or Loss and Other Comprehensive Income			
	For the year ended 31 December 2019		
Revenue	986,888	(40,081)	946,807
Cost of revenue	(684,468)	39,649	(644,819)
Gross profit	302,420	(432)	301,988
Loss from main operations	(337,604)	(432)	(338,036)
Financial charges	(236,993)	(31,743)	(268,736)
Other income	102,015	7,592	109,607
Loss for the year before zakat	(463,808)	(24,583)	(488,391)
Zakat	(45,000)	-	(45,000)
Net loss for the year	(508,808)	(24,583)	(533,391)
Total comprehensive loss for the year	(522,619)	(24,583)	(547,202)
Loss per share (in SR per share)	(0.60)	(0.03)	(0.63)
Operating activities	(240,575)	(11,234)	(251,809)
Investing activities	(391,276)	-	(391,276)
Financing activities	433,612	11,234	444,846

6. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

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*
IAS 39, IFRS 4, 7, 9 and 16	Interest rate benchmark reform – phase 2	1 January 2021
IAS 37	Onerous contracts – cost of fulfilling a contract	1 January 2022
IFRS Standards	Annual improvements to IFRS standards 2018 – 2020	1 January 2022
IAS 16	Property, plant and equipment: proceeds before intended use	1 January 2022
IFRS 3	Reference to the conceptual framework	1 January 2022
IFRS 17	Insurance contracts	1 January 2023
IAS 1	Classification of liabilities as current or non-current (amendments to IAS 1)	1 January 2023
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.

7. REVENUE

	31 December 2020 SR'000	*31 December 2019 SR'000* (Restated)
Revenue by operating segments:		
Residential business	**92,633**	500,462
Industrial development	**281,810**	300,803
Hospitality and leisure	**98,196**	73,856
Others	**74,648**	71,686
	547,287	946,807
Revenue by nature:		
Sale of properties	**229,468**	670,282
Leasing	**135,065**	117,542
Hospitality	**93,031**	70,566
Others	**89,723**	88,417
	547,287	946,807

8. COST OF REVENUE

	31 December 2020 SR'000	*31 December 2019 SR'000* (Restated)
Cost of properties (note 19)	**169,022**	212,982
Provision for development properties (note 19)	**137,622**	-
Depreciation	**150,126**	150,424
Employees' costs	**86,661**	90,119
Hospitality	**21,768**	16,474
Leasing related cost	**6,199**	512
Maintenance	**43,250**	60,154
Refurbishment cost	**59,371**	-
Impairment (note 14)	**97,029**	-
Others	**95,268**	114,154
	866,316	644,819

9. SELLING AND MARKETING EXPENSES

	31 December 2020 SR'000	*31 December 2019 SR'000*
Employees' costs	**22,885**	26,838
Promotional expenses	**33,573**	6,508
Branding and marketing costs	**9,761**	17,953
Advertising costs	**6,897**	12,848
Public relations	**2,054**	2,030
Others	**4,506**	13,314
	79,676	79,491

10. GENERAL AND ADMINISTRATION EXPENSES

	31 December 2020 SR'000	*31 December 2019 SR'000*
Employees' costs	**203,198**	203,652
Professional charges	**29,100**	33,172
Communication and office costs	**19,132**	23,492
Facility and city management services	**6,834**	10,542
Repairs and maintenance	**4,942**	3,931
Others	**13,888**	15,863
	277,094	290,652

11. FINANCIAL CHARGES

	31 December 2020 SR'000	*31 December 2019 SR'000* (Restated)
Commission on loans	**308,593**	259,667
Financial charges on leases (note 15.2)	**3,958**	5,265
Bank charges	**3,017**	3,804
	315,568	268,736

12. OTHER INCOME, NET

	31 December 2020 SR'000	*31 December 2019 SR'000* (Restated)
Reimbursement of expenses (see note (a) below)	**47,550**	55,243
Amortization of unearned interest (see note (b) below)	**39,495**	24,779
Reversal of accruals no longer required	**3,717**	1,055
Gain on disposal of investment properties (see note (c) below)	**5,717**	38,297
Claim settlement provision (see note (d) below)	**-**	(10,000)
Others	**18,763**	233
	115,242	109,607

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. In addition, during the year ended 31 December 2020, an additional funding of USD 16 million has been approved. Consequently, the net operating loss or expenses of the subject institute, amounting to SR 47.6 million (31 December 2019: SR 55.2 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 39.5 million (31 December 2019: SR 24.7 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 5.7 million (31 December 2019: SR 38 million).

d) During 2019, a government agency filed a claim against the Company related to operations of the Oceana Villas. The Company 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, to be paid in ten equal installments, as full and final settlement which has been accepted by the Company. Accordingly, it has been reflected as provision in the books of accounts.

13. LOSS PER SHARE

Basic Earnings per Share (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.

The loss per share calculation is given below:

	31 December 2020 SR'000	*31 December 2019 SR'000 (Restated)*
Loss attributable to ordinary equity holders of the parent	**(1,248,364)**	(533,391)
Weighted average number of ordinary shares ('000)	**850,000**	850,000
Loss per share (Saudi Riyals) – Basic and Diluted	**(1.47)**	(0.63)

14. PROPERTY AND EQUIPMENT

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

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

	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 2020 SR'000*
Cost:										
At the beginning of the year	135,283	1,313,528	336,407	90,105	155,098	97,412	15,089	3,170,466	1,817,126	**7,130,514**
Additions	-	76	1,912	1,553	4,829	3,925	295	25	131,387	**144,002**
Transfers	-	95,218	770	-	1,231	5,259	47	19,509	(122,034)	**-**
Impairment (note (e) below and note 40)	**-**	(142,197)	-	-	-	-	-	-	(10,999)	**(153,196)**
At the end of the year	135,283	1,266,625	339,089	91,658	161,158	106,596	15,431	3,190,000	1,815,480	**7,121,320**
Depreciation:										
At the beginning of the year	-	292,671	93,187	44,135	117,879	71,507	12,360	619,028	-	**1,250,767**
Charge for the year	-	52,026	26,432	12,891	21,212	15,830	2,635	129,867	-	**260,893**
At the end of the year	-	344,697	119,619	57,026	139,091	87,337	14,995	748,895	-	**1,511,660**
Net book value										
At 31 December 2020	**135,283**	**921,928**	**219,470**	**34,632**	**22,067**	**19,259**	**436**	**2,441,105**	**1,815,480**	**5,609,660**

14. PROPERTY AND EQUIPMENT (continued)

	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 2019* *SR'000*
Cost:										
At the beginning of the year	135,283	1,070,525	157,231	63,203	135,342	79,432	14,919	3,023,662	1,771,881	6,451,478
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 16)	-	169,679	6,944	-	-	-	-	-	-	176,623
Impairment (note (e) below)	-	-	-	-	-	-	-	-	(167)	(167)
Disposals	-	-	-	-	-	-	(600)	-	-	(600)
At the end of the year	135,283	1,313,528	336,407	90,105	155,098	97,412	15,089	3,170,466	1,817,126	7,130,514
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	1,020,857	243,220	45,970	37,219	25,905	2,729	2,551,438	1,817,126	5,879,747

14. PROPERTY AND EQUIPMENT (continued)

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

	31 December 2020 SR'000	*31 December 2019 SR'000*
Cost of revenue	**71,990**	69,958
Others	**188,903**	196,799
	260,893	266,757

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 97 million (2019: SR 128 million).

d) Freehold land amounting to SR 135 million (2019: SR 135 million), mainly relates to infrastructure and operating assets.

e) During the year ended 31 December 2020, the Group has recognised an impairment loss, amounting to SR 153.2 million (2019: SR 0.17 million).

Impairment charge for the year has been allocated as follows:

	31 December 2020 SR'000	*31 December 2019 SR'000*
Cost of revenue (note 8)	**97,029**	-
Others	**56,167**	167
	153,196	167

f) Property and equipment with the gross carrying amount of SR 320 million (2019: SR 272 million) are fully depreciated but are still in use.

g) As at 31 December 2020, an amount of SR Nil (2019: SR 96.8 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.

15. LEASES

15.1 Right-of-use assets

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

Buildings	3-10 years
Heavy equipment & machinery	3-4 years
Motor vehicles	2-4 years

15. LEASES (continued)

15.1 Right-of-use assets (continued)

	Buildings	Heavy equipment & machinery	Motor Vehicles	Total
	SR'000	*SR'000*	*SR'000*	*SR'000*
Cost:				
Balance as at 1 January 2020	105,583	54,067	6,424	**166,074**
Additions	-	1,207	-	**1,207**
Reduction in rentals	-	(2,438)	-	**(2,438)**
Balance as at 31 December 2020	105,583	52,836	6,424	**164,843**
Accumulated depreciation:				
As at 1 January 2020	15,502	33,862	3,378	**52,742**
Charge for the year	11,610	14,447	1,794	**27,851**
As at 31 December 2020	27,112	48,309	5,172	**80,593**
Net book value:				
As at 31 December 2020	**78,471**	**4,527**	**1,252**	**84,250**

	Buildings	Heavy equipment & machinery	Motor Vehicles	Total
	SR'000	*SR'000*	*SR'000*	*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 2020 SR'000	*31 December 2019 SR'000*
Cost of revenue	**24,968**	27,492
Others	**2,883**	2,722
	27,851	30,214

15. LEASES (continued)

15.2 Lease Liabilities

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

	31 December 2020 SR'000	*31 December 2019 SR'000*
Non-current portion	**51,319**	80,625
Current portion	**40,799**	33,013
	92,118	113,638

Movement of lease liabilities:

	31 December 2020 SR'000	*31 December 2019 SR'000*
As at 1 January	**113,638**	132,775
Additions	**1,207**	3,379
Reduction in rentals	**(2,438)**	-
Financial charges (note 11)	**3,958**	5,265
Repayments	**(24,247)**	(27,781)
As at 31 December	**92,118**	113,638

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

	2020		*2019*	
	Minimum lease payments (SR'000)	***Present value of minimum lease payments (SR'000)***	*Minimum lease payments (SR'000)*	*Present value of minimum lease payments (SR'000)*
Within twelve months	**52,819**	**40,799**	37,501	33,013
One to five years	**38,617**	**31,980**	54,502	44,584
More than five years	**20,572**	**19,339**	39,964	36,041
Total minimum lease payments	**112,008**	**92,118**	131,967	113,638
Less: financial charges	**(19,890)**	**-**	(18,329)	-
Present value of minimum lease payments	**92,118**	**92,118**	113,638	113,638

16. INVESTMENT PROPERTIES

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

Buildings	20-30 years	Infrastructure assets	10-30 years
Leasehold improvements	2 - 10 years		

	Land	*Buildings*	*Leasehold improvements*	*Infrastructure assets*	*Capital work in progress (CWIP)*	*Total 2020*
	SR'000	*SR'000*	*SR'000*	*SR'000*	*SR'000*	*SR'000*
Cost:						
At the beginning of the year	2,820,859	941,045	945	432,008	1,121,456	5,316,313
Additions	-	74	-	-	12,094	12,168
Disposals	(803)	(6,624)	-	-	(1,201)	(8,628)
Transfers to development properties (note 19)	-	-	-	-	(65,008)	(65,008)
Impairment (note (c) below and note 40)	-	(25,469)	-	-	-	(25,469)
At the end of the year	2,820,056	909,026	945	432,008	1,067,341	5,229,376
Depreciation:						
At the beginning of the year	-	167,628	945	102,680	-	271,253
Charge for the year	-	37,488	-	15,680	-	53,168
Disposals	-	(1,322)	-	-	-	(1,322)
At the end of the year	-	203,794	945	118,360	-	323,099
Net book value						
At 31 December 2020	**2,820,056**	**705,232**	**-**	**313,648**	**1,067,341**	**4,906,277**

16. 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	1,196,711	5,403,610
Additions	-	4,636	-	520	101,401	106,557
Disposals	(804)	(13,101)	-	(4,042)	(33)	(17,980)
Transfers to property and equipment (note 14)	-	(169,679)	(6,944)	-	-	(176,623)
Transfers to development properties (note 19)	(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	1,121,456	5,316,313
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	1,121,456	5,045,060

16. INVESTMENT PROPERTIES (continued)

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 25). 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 2,465 million (2019: SR 2,466 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 27(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 27(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 2020, has been arrived on the basis of the valuation exercise carried out by ValuStrat (Khabeer Altathmen Alaqaria), an independent valuer not related to the Group. ValuStrat is a firm licensed by the Taqeem (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 (discount rate 13%), 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 (discount rate 12.5%, yield 7% to 12.5%) 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 2020	-	-	**40,484,239**	**40,484,239**
31 December 2019	-	-	47,412,867	47,412,867

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.

16. INVESTMENT PROPERTIES (continued)

The 31 December 2020 valuations contain a material valuation uncertainty clause by the external valuers due to the market disruption caused by the COVID-19 pandemic, which resulted in a reduction in transactional evidence and market yields. This clause does not invalidate the valuation but implies that there is substantially more uncertainty than under normal market conditions. The valuation of properties takes into account the level of pandemic, related economic impact, expected recovery including occupancy and earning levels of properties. As a result of the continued uncertainty, these assumptions may be revised significantly in 2021.

c) During the year ended 31 December 2020, the Group has recognised an impairment loss, amounting to SR 25.4 million.

d) 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.

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

	31 December 2020 SR'000	*31 December 2019 SR'000*
Rental income	**2,086,221**	2,224,201
Currently undetermined future use	**2,820,056**	2,820,859
	4,906,277	5,045,060

f) As at 31 December 2020, an amount of SR Nil (2019: 23.94 million) was capitalized as cost of borrowing for the construction of investment properties.

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

17. INTANGIBLE ASSETS

The movement in the intangible assets is as follows:

	31 December 2020 SR'000	*31 December 2019 SR'000*
Cost:		
At the beginning of the year	**103,486**	99,107
Additions	**3,455**	4,379
At the end of the year	**106,941**	103,486
Amortization:		
At the beginning of the year	**90,970**	80,491
Charge for the year	**8,094**	10,479
At the end of the year	**99,064**	90,970
Net book value	**7,877**	12,516

18. INVESTMENT IN EQUITY ACCOUNTED INVESTEES

	Effective ownership interest (%)		*Balance as at*	
	31 December 2020	*31 December 2019*	***31 December 2020 SR'000***	*31 December 2019 SR'000*
Investment in Ports Development Company ("PDC") (see note (a) below)	**50%**	50%	**2,400,032**	2,366,137
Investment in Biyoutat Progressive Company for Real Estate Investment & Development ("Biyoutat") (see note (b) below)	**20%**	20%	**45,790**	45,790
			2,445,822	2,411,927

a) PORTS DEVELOPMENT COMPANY

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

	2020 SR'000	*2019 SR'000*
Balance at the beginning of the year	**2,366,137**	2,376,775
Share of results for the year, net of Zakat charge	**48,065**	7,983
Share of other comprehensive loss	**(14,170)**	(18,621)
Balance at the end of the year	**2,400,032**	2,366,137

Quantitative information of PDC is as follows:

	31 December 2020 SR'000	*31 December 2019 SR'000*
Non-current assets	**8,002,064**	8,004,904
Current assets	**442,949**	343,798
Non-current liabilities	**(2,681,987)**	(2,520,969)
Current liabilities	**(381,735)**	(516,293)
Equity	**5,381,291**	5,311,440
Group's share in equity – 50% (2019: 50 %)	**2,690,645**	2,655,720
Elimination of share of profit on sale of land and commission income	**(290,613)**	(287,714)
Adjustments related to piecemeal acquisition and share of Zakat	**-**	(1,869)
Group's carrying amount of the investment	**2,400,032**	2,366,137

18. INVESTMENT IN EQUITY ACCOUNTED INVESTEES (continued)

a) PORTS DEVELOPMENT COMPANY (continued)

	31 December 2020 SR SR'000	*31 December 2019 SR SR'000*
Revenue	**430,019**	327,763
NET INCOME FOR THE YEAR	**96,130**	15,966
Other comprehensive loss to be reclassified to profit or loss in subsequent years	**(28,340)**	(37,242)
Total comprehensive income / (loss) for the year	**67,790**	(16,882)
Group's share of profit for the year, net of related Zakat charge	**48,065**	7,983
Group's share of other comprehensive loss for the year	**(14,170)**	(18,621)

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 1,321 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 a pledge of the shares of the Company in PDC.

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 increased to SR 180 million during 2018. In this connection, the Company had also provided promissory notes, amounting to SR 75 million, which has been increased to SR 90 million during 2019, plus any Murabaha profits due to be paid by the PDC.

18. INVESTMENT IN EQUITY ACCOUNTED INVESTEES (continued)

a) PORT DEVELOPMENT COMPANY (continued)

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 2020, the subject Swap Contracts had a negative fair value of SR 107.1 million (2019: SR 78.8 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 14.1 million (2019: SR 18.6 million), within other comprehensive loss 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 2020 SR'000	*31 December 2019 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

19. DEVELOPMENT PROPERTIES

	31 December 2020 SR'000	*31 December 2019 SR'000 (Restated)*
Costs incurred to-date	**1,702,283**	1,853,046
Transferred from investments properties (note 16)	**65,008**	3,544
	1,767,291	1,856,590
Transfers to cost of revenue (note 8)	**(169,022)**	(212,982)
Provision for development properties (note 8, 19.3 and 40)	**(137,622)**	-
	1,460,647	1,643,608
Current portion of development properties	**(145,153)**	(720,845)
Non-current portion of development properties	**1,315,494**	922,763

19.1. Development properties include land amounting to SR 160.62 million (2019: SR 163.6 million).

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

19.3 The Group carried out an assessment of net realizable value for development properties and recognized a provision, amounting to SR 137.6 million, during the year ended 31 December 2020.

20. ACCOUNTS RECEIVABLES AND OTHER CURRENT ASSETS

	31 December 2020 SR'000	*31 December 2019 SR'000*
Gross accounts receivable	**739,042**	656,742
Less: Impairment loss on accounts receivable (see notes below)	**(236,742)**	(150,418)
	502,300	506,324
Contribution receivable	**35,481**	37,664
Prepayments	**37,642**	33,253
Advances to suppliers	**17,383**	17,501
Amounts due from related parties (note 32)	**16,068**	7,327
Commission receivable on Murabaha term deposits	**1,088**	1,641
Others	**44,814**	52,951
	654,776	656,661

20. ACCOUNTS RECEIVABLES AND OTHER CURRENT ASSETS (continued)

a) As at 31 December 2020, accounts receivable at nominal value of SR 236.7 million (2019: SR 150.4 million) were impaired. The unimpaired accounts receivables include SR 400 million (2019: SR 417 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.

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

	31 December 2020 SR'000	*31 December 2019 SR'000*
At the beginning of the year	**150,418**	86,411
Provision for the year	**86,324**	64,007
At the end of the year	**236,742**	150,418

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

			Past due and impaired				
	Total SR'000	***Neither Past due nor impaired SR'000***	***< 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 2020	**739,042**	**47,560**	**19,155**	**13,600**	**21,987**	**75,239**	**561,501**
31 December 2019	656,742	34,759	28,308	12,109	14,448	51,009	516,109

c) Future commitment of receivables against signed sales contracts as of 31 December 2020, amounted to SR 1,371 million (2019: SR 1,530 million).

21. UNBILLED REVENUE

Movements in the unbilled revenue is as follows:

	31 December 2020 SR'000	*31 December 2019 SR'000 (Restated)*
At the beginning of the year	**1,044,119**	692,296
Revenue for the year	**417,737**	931,473
Billing raised during the year	**(716,398)**	(579,650)
	745,458	1,044,119
Current portion of unbilled revenue	**(444,610)**	(413,144)
Non-current portion of unbilled revenue	**300,848**	630,975

22. MURABAHA TERM DEPOSITS WITH BANKS

	31 December 2020 SR'000	*31 December 2019 SR'000*
Murabaha deposits	**147,358**	279,806
Short-term Murabaha deposits (note 23)	**(46,000)**	(279,806)
	101,358	-

23. CASH AND CASH EQUIVALENTS

	31 December 2020 SR'000	*31 December 2019 SR'000*
Cash and bank balances	**128,904**	124,587
Short-term Murabaha deposits (see note below and note 22)	**46,000**	279,806
	174,904	404,393

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

The Company is required to maintain certain balances at 5% of amount collected from customers against off-plan sale of development properties which are deposited into escrow accounts. The balance as of 31 December 2020 amounted to SR 10.7 million (2019: SR 30.3 million). These deposits/balances are not under lien.

24. 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.

	31 December 2020 SR'000	*31 December 2019 SR'000*	***31 December 2020 SR'000***	*31 December 2019 SR'000*	***31 December 2020 SR'000***	*31 December 2019 SR'000*
	Gross receivable		***Present value of gross receivable***		***Unearned interest income***	
Current portion	**7,785**	7,213	**4,214**	3,906	**3,571**	3,307
Non-current portion:						
One to five years	**31,140**	28,853	**18,454**	17,050	**12,686**	11,803
Over five years	**86,708**	86,529	**67,417**	67,595	**19,291**	18,934
	117,848	115,382	**85,871**	84,645	**31,977**	30,737
	125,633	122,595	**90,085**	88,551	**35,548**	34,044

25. SHARE CAPITAL

The Parent Company's share capital is divided into 850 million shares of SR 10 each (2019: 850 million shares of SR 10 each), allocated as follows:

	2020		*2019*	
	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 16(a))	**170,000**	**1,700,000**	170,000	1,700,000
	850,000	**8,500,000**	850,000	8,500,000

26. 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.

27. LONG-TERM LOANS

	31 December 2020 SR'000	*31 December 2019 SR'000*
Ministry of Finance ("MoF") loan (see note (a) below)	**5,000,000**	5,000,000
Others (see note (b) below)	**3,101,411**	3,113,750
	8,101,411	8,113,750
Current portion of long-term loans (see note (a) and (b) below)	**(2,626,250)**	(1,557,500)
Non-current portion of long-term loans	**5,475,161**	6,556,250

(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 instalments commencing from September 01, 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. During January 2020, based on the discussions held with the Ministry of Finance, the MoF has rescheduled the first instalment due in June 2020 to January 2021. Hence, the principal amount is now repayable in seven instalments, commencing from January 2021, with accrued commission payable on an annual basis.

27. LONG-TERM LOANS (continued)

(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 2020, amounted to SR 976.25 million (31 December 2019: SR 976.25 million). As per the terms of the agreement, the loan is repayable in eight bi-annual instalments from June 30, 2018 to 31 December 2021. The instalments due within twelve-months, amounting to SR 976.25 million, are classified as a current liability. The loan is secured against part of KAEC's greenfield land, having a value of SR 1,669 million, based on current outstanding exposure, held by the Parent Company, and an order note for SR 1,642.5 million as per the last revised Facilities Letter Agreement.

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 2020, amounted to SR 437.5 million (31 December 2019: SR 437.5 million). As per the terms of the agreement, the loan is repayable in eight bi-annual instalments from 20 October 2019 to 20 April 2023. The instalments due within twelve-months, amounting to SR 250 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 31 December 2020, amounted to SR 1,700 million (31 December 2019: SR 1,700 million). As per the terms of the agreements, the loan terms are door to door eight years with three 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 three years of the loan. During the period ended 31 December 2020, the Company has signed revised facility agreement with the commercial bank for the outstanding facility amounting to SR 1,700 million. Hence, the principal amount is now repayable after a grace period of 3 years from 2020 to 2022, in multiple unequal semi-annual instalments from 2023 to 2030. 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 note of SR 1,700 million.

Furthermore, discussions regarding the restructuring of the loans, debt to equity conversion and repayment plans with other lenders are already in progress. For details, please refer to note 3.

28. 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, to finance the working capital requirements. The subject loan facility was reduced to SR 200 million during the year 2019, bifurcated into SR 170 million for the working capital and SR 30 million for the Documentary Credit ("DC") facility, and is secured by a promissory note of SR 200 million. The outstanding balance of the working capital and DC facility, as at 31 December 2020, amounted to SR 170 million (31 December 2019: SR 170 million) and SR Nil (31 December 2019: SR 3.7 million), respectively. During the period ended 31 December 2020, the Group has signed a revised FLA for working capital facility amounting to SR 170 million, restructured to a medium term loan, and to be repaid in 8 equal semi-annual instalments over 4 years starting 28 February 2021, together with specific security collaterals and covenants. Pledging of the plots identified as collateral was completed subsequent to the year end.

28. SHORT-TERM LOANS (continued)

Moreover, from an existing short-term facility of SR 400 million from another bank, the Company has availed SR 150 million during the year 2019 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 1,642.5 million. The outstanding balance of the working capital and DC facility, as at 31 December 2020, amounted to SR 150 million (31 December 2019: SR 150 million) and SR 66 million (31 December 2019: SR 42.7 million), respectively.

In addition to the above, the Company has also availed a short-term facility of SR 95 million from another commercial bank, at prevailing commercial rates, bifurcated into SR 50 million for the working capital and SR 45 million for the DC facility. The outstanding balance of the working capital and DC facility, as of 31 December 2020, amounted to SR 50 million (31 December 2019: SR Nil) and SR 37 million (31 December 2019: SR Nil), respectively.

29. 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 2020 SR'000	*31 December 2019 SR'000*
Balance at the beginning of the year	**63,868**	64,220
Included in consolidated statement of profit or loss		
Current service cost	**14,032**	14,421
Interest cost	**1,898**	2,813
	15,930	17,234
Included in consolidated statement of other comprehensive income		
Remeasurement gain arising from:		
- Financial assumptions	**(156)**	(448)
- Experience adjustments	**(3,396)**	(4,362)
Actuarial gain	**(3,552)**	(4,810)
Benefits paid	**(14,309)**	(12,776)
Balance at the end of the year	**61,937**	63,868

Actuarial assumptions

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

	2020	*2019*
Discount rate	**3.0%**	2.97%
Expected rate of future salary increase	**3.5%**	3.5%
Mortality rate	**1.17%**	1.17%
Employee turnover rate	**Age & service based - Moderate**	Age & service based - Moderate
Retirement age	**60 years**	60 years

29. EMPLOYEES' TERMINAL BENEFITS (continued)

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

		Impact on ETB liability Increase / (decrease)			
		31 December 2020		*31 December 2019*	
	Change in assumption by	***Increase in rate***	***Decrease in rate***	*Increase in rate*	*Decrease in rate*
		SR'000	***SR'000***	*SR'000*	*SR'000*
Discount rate	1%	**(4,856)**	**5,599**	(5,096)	5,881
Expected rate of future salary increase	1%	**5,513**	**(4,878)**	5,789	(5,118)
Mortality rate	10%	**(16)**	**16**	(17)	17
Employee turnover rate	10%	**(540)**	**578**	(579)	620

30. ACCOUNTS PAYABLE AND ACCRUALS

	31 December 2020	*31 December 2019*
	SR'000	*SR'000*
Trade accounts payable	**363,630**	340,256
Accrued financial charges	**338,459**	218,024
Retentions payable	**251,063**	284,772
Accrued expenses and other payables	**250,848**	154,083
Contract cost accruals	**187,228**	132,223
Advances from customers	**64,556**	94,069
Amounts to be donated for charitable purposes (see note below)	**41,059**	44,321
Amounts due to related parties (note 32)	**4,558**	15,106
VAT payable	**-**	3,737
Unearned interest income - Home Ownership Scheme (note 24)	**3,571**	3,307
Unearned income	**5,448**	15,210
	1,510,420	1,305,108

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.

31. ZAKAT

Charge for the current year / prior year

	31 December 2020 SR'000	*31 December 2019 SR'000*
Current year provision	**35,000**	45,000
Prior year provision	**20,000**	-
	55,000	45,000

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 2020 SR'000	*31 December 2019 SR'000*
At the beginning of the year	**121,816**	156,843
Charge for the current year	**35,000**	45,000
Charge for the prior year	**20,000**	-
Payments during the year	**(68,129)**	(80,027)
At the end of the year	**108,687**	121,816

Status of assessments

<u>The Parent Company – Emaar The Economic City</u>
The General Authority of Zakat and Tax ("GAZT") issued Zakat assessment for the years 2006 to 2008 and claimed additional Zakat and Withholding tax (WHT) of SAR 90.4 million in addition to delay fines on the WHT. In compliance with the appeal procedures and without admitting the liability, EEC submitted a bank guarantee and paid under protest the WHT difference.

The BOG did not accept the grievance on the Zakat from the "form" point of view. EEC filed a plea to the Royal court requesting the BOG to reconsider the verdict and restudy the case. The BOG did not accept the plea and they maintained the previous decision.

During 2019, the GAZT has issued letter for collection of additional Zakat liability of SR 86.6 million related to the years 2006 to 2008. EEC has settled 20% and 43% of the total liability in the year 2019 and 2020 respectively. Furthermore, the GAZT has agreed to allow the payment of balance liability in instalments.

The WHT case was also under the review at the BOG. A decision was issued supporting EEC'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.

EEC has settled the additional Zakat liabilities and finalized assessments for the years 2009 to 2011. The Company has filed the returns of the years 2012, 2013 and 2019. The GAZT has issued zakat certificate for 2019 valid until 30 April 2021.

The GAZT issued Zakat assessment for the year 2014 and claimed additional Zakat of SAR 67.7 million. EEC filed an appeal against the GAZT's assessment and the GAZT has issued a revised assessment on 8 October 2020 with reduced Zakat liability of SR 33 million. The Company has filed an appeal against the revised assessment with the General Secretariat of Tax Committees (GSTC).

31. ZAKAT (continued)

The GAZT has also issued Zakat assessments dated 23 November 2020 for the years 2015 to 2018 with additional Zakat liabilities of SR 254 million. EEC has filed an appeal against the GAZT's assessment. Subsequent to the year end, on 24 February 2021, GAZT has issued a revised assessment with reduced zakat liability of SR 247 million. The Company is reviewing the revised assessment and is likely to file an appeal with the Tax Violations Dispute Resolution Committee (TVDRC).

EEC has requested the GAZT for instalments to pay the remaining balance of SR 31.5 million for the years 2006 to 2008 and for the zakat liability of SAR 44.3 million related to the year 2019. The GAZT has allowed EEC to settle outstanding liability of SAR 75.8 million in ten (10) equally monthly instalments of SAR 7.5 million each starting from August 2020. EEC has already settled four instalments due from August until November 2020 and requested the GAZT for deferment of instalments due in December 2020 and January 2021, which has been duly accepted by the GAZT. Subsequent to the year end, EEC has settled the instalment falling due in the month of February 2021.

<u>Subsidiaries – ECIHC, IZDCL, REOM, REM, RED and EKC</u>
ECHIC finalized its assessment up to 2012 and filed the Zakat / information returns up to the years 2019. The GAZT has issued Zakat certificate for the year 2019, valid until 30 April 2021.

IZDCL finalized its Zakat status up to 2012. The GAZT issued Zakat assessment for the years 2013 to 2015 and claimed additional Zakat of SAR 4.6 million. IZDCL has objected against the GAZT assessment, providing the supporting documents for its position. The GAZT has transferred the case to the GSTC and IZDCL has also registered an appeal on GSTC's portal. The Tax Violations Dispute Resolution Committee (TVDRC) conducted the hearing session on 22 October 2020 and rendered its decision on 22 December 2020, rejecting IZDCL's appeal. IZDCL has filed an appeal against the TVDRC's decision with the Tax Violations Dispute Appellate Committee (TVDAC)

IZDCL has filed the Zakat / information returns up to the years 2019. The GAZT has issued Zakat certificate for the year 2019, valid until 30 April 2021.

RED has filed the zakat / information returns up to the years 2019. The GAZT has issued final Zakat certificates for the year 2019, valid until 30 April 2021. The GAZT issued Zakat assessments dated 29 November 2020 for the years 2015 to 2017 with additional Zakat liabilities of SR 72.45 million. RED filed an appeal against the assessment and the GAZT issued their decision on 10 March 2021, rejecting RED's appeal on technical grounds. The Company is reviewing the revised assessment and is likely to file an appeal with the Tax Violations Dispute Resolution Committee (TVDRC).

REOM, REM and EKC filed the Zakat / information returns up to the years 2019. The GAZT has issued final Zakat certificates for the year 2019, valid until 30 April 2021.

32. 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 18, following are the significant related party transactions during the period and the related balances:

32. RELATED PARTY TRANSACTIONS (continued)

Related party	*Nature of transactions*	*Amounts of Transactions*		*Balance as at*	
		2020 SR' 000	*2019 SR' 000*	***31 December 2020 SR' 000***	*31 December 2019 SR' 000*
Amounts due from related parties					
Other related parties	Lease rentals, utilities, service charges and other	**2,354**	4,616	**721**	3,211
	Sale of properties	**14,181**	5,640	**3,089**	1,650
Joint Venture	Lease rentals and utilities charges	**10,850**	1,497	**11,653**	971
Key management personnel	Sale of properties, utilities and service charges	**-**	1,179	**261**	895
	Lease rentals	**414**	222	**344**	222
Board of directors	Sale of properties, utilities and service charges	**-**	164	**-**	231
	Lease rentals	**316**	147	**-**	147
Total				**16,068**	7,327
Amounts due to related parties					
Other related parties	Expenses incurred on behalf of the Group	**-**	-	**-**	(2,619)
	Services provided to the Group	**3,145**	389	**(3)**	(415)
	Advance against sale of properties and leased units	**-**	-	**-**	(7,961)
	Purchase of goods	**-**	20	**-**	-
Other related parties with significant influence	Expenses incurred on behalf of the Group	**11**	-	**(455)**	(89)
Key management personnel	Remuneration	**9,973**	16,263	**-**	-
Board of directors	Remuneration and meeting fees	**4,100**	4,003	**(4,100)**	(4,003)
	Advance received against services	**-**	-	**-**	(19)
Total				**(4,558)**	(15,106)

32. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel of the Group

	31 December 2020 SR' 000	*31 December 2019 SR' 000*
Short-term employee benefits	**8,830**	13,159
Non-monetary benefits	**384**	346
Post-employment benefits	**752**	1,347
Termination benefits	**7**	1,411
	9,973	16,263
Amount due to key management personnel	**752**	7,901

33. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to disclosure set out in notes 18, 27 and 31, contingent liabilities and commitments, as at 31 December 2020, 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 649 million (31 December 2019: SR 781 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) A Government entity requested the Company to share the costs incurred by the Government entity on account of re-routing the Haramain High Speed Railway via King Abdullah Economic City. The Company provided the details of the costs already incurred by it pertaining to this project that included the value of land contributed by the Company for the train station, costs incurred for the station access bridge and other associated infrastructure costs. The management is under discussion with the Government entity, supported by the Economic Cities and Special Zones Authority, and expects a favorable outcome. Hence no provision has been made in these consolidated financial statements.

(d) 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 2020 SR' 000	*31 December 2019 SR' 000*
Within one year	**47,496**	49,112
After one year but not more than five years	**186,255**	191,348
More than five years	**516,970**	574,169
	750,721	814,629

34. 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.

Segments related Revenue and Profitability

For the year ended:	*Residential business SR'000*	*Industrial development SR'000*	*Hospitality and leisure SR'000*	*Others SR'000*	*Adjustments and eliminations SR'000*	*Total SR'000*
31 December 2020						
Revenue						
External customers	**92,633**	**281,810**	**98,196**	**74,648**	**-**	**547,287**
Inter-segment	**17,631**	**6,442**	**31,666**	**91,569**	**(147,308)**	**-**
	110,264	**288,252**	**129,862**	**166,217**	**(147,308)**	**547,287**
Results						
Cost of inventories and services recognised as an expense	**(459,319)**	**(48,495)**	**(29,009)**	**(64,099)**	**109,911**	**(491,011)**
Impairment loss	**(84,046)**	**-**	**(10,393)**	**(73,521)**	**-**	**(167,960)**
Financial charges	**(221)**	**(8,015)**	**(4,108)**	**(303,224)**	**-**	**(315,568)**
Murabaha deposit income	**5**	**-**	**-**	**2,531**	**-**	**2,536**
Depreciation	**(50,190)**	**(24,275)**	**(88,590)**	**(178,857)**	**-**	**(341,912)**
Amortisation	**(426)**	**-**	**(21)**	**(7,647)**	**-**	**(8,094)**
Share of results of equity accounted investee	**-**	**-**	**-**	**48,065**	**-**	**48,065**
Other income / (expenses)	**(49,695)**	**(3,887)**	**(83,469)**	**(329,656)**	**-**	**(466,707)**
Loss before Zakat						**(1,193,364)**

34. SEGMENTAL INFORMATION (continued)

Operating Segments (continued)

For the year ended:	***Residential business SR'000***	***Industrial development SR'000***	***Hospitality and leisure SR'000***	***Others SR'000***	***Adjustments and eliminations SR'000***	***Total SR'000***
31 December 2019						
Revenue						
External customers	500,462	300,803	73,856	71,686	-	946,807
Inter-segment	15,001	4,651	31,634	97,807	(149,093)	-
	515,463	305,454	105,490	169,493	(149,093)	946,807
Results						
Cost of inventories and services recognised as an expense	(193,785)	(58,460)	(17,435)	(65,578)	109,810	(225,448)
Impairment loss	(493)	-	(3,564)	(55,824)	-	(59,881)
Financial charges	(300)		(4,424)	(264,012)	-	(268,736)
Murabaha deposit income	56	113	6	616	-	791
Depreciation	(49,523)	(23,846)	(85,264)	(191,312)	-	(349,945)
Amortisation	(235)		(20)	(10,224)	-	(10,479)
Share of results of equity accounted investee	-	-	-	7,983	-	7,983
Other income / (expenses)	(107,686)	14,209	(96,440)	(339,566)	-	(529,483)
Loss before Zakat						(488,391)

35. 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.

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

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 the following 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.

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 13% (2019: 11.5%) of outstanding accounts receivable as at 31 December 2020. Payment term varies from product to product with some exceptions at the customer level.

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

a) Credit risk (continued)

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.

Credit risk from balances with banks and financial institutions is managed by Group's treasury in accordance with the Group's policy. The Group limits its exposure to credit risk by only placing balances with international banks and local banks of good repute. Given the profile of its bankers, management does not expect any counterparty to fail m meeting its obligations

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

	31 December 2020 SR'000	*31 December 2019 SR'000*
Accounts receivables and other current assets	**834,555**	756,325
Murabaha term deposits with banks	**101,358**	-
Cash at bank	**173,759**	403,413
	1,111,610	1,159,738

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.

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:

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

b) Commission rate risk (continued)

Commission rate sensitivity (continued)

	Increase/decrease in basis points	***Effect on profit before Zakat SR'000***
2020	**+100**	**(81,013)**
	-100	**81,013**
2019	+100	(81,138)
	-100	81,138

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 3.4% (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's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank borrowings. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities, by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Discussions regarding the restructuring of the loans and repayment plans are already in progress with the respective banks (refer note 3).

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

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

31 December 2020	***Less than 12 months SR'000***	***More than 12 months SR'000***	***Total SR'000***
Loans	**3,099,183**	**5,475,161**	**8,574,344**
Lease liabilities	**52,819**	**59,189**	**112,008**
Accounts payable and accruals	**1,432,286**	**-**	**1,432,286**
	4,584,288	**5,534,350**	**10,118,638**

31 December 2019	*Less than 12 months SR'000*	*More than 12 months SR'000*	*Total SR'000*
Loans	1,923,898	6,556,250	8,480,148
Lease liabilities	37,501	94,466	131,967
Accounts payable and accruals	1,173,675	-	1,173,675
	3,135,074	6,650,716	9,785,790

36. 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 2020, the Group's gearing ratio is 59% (2019: 54%).

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 2020 and 31 December 2019.

37. 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 2020 and 31 December 2019, 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 2020 and 31 December 2019.

During the year ended 31 December 2020, there were no movements between the levels.

38. 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.

39. MATERIAL SUBSIDIARIES

The following table summarizes the statement of financial position of these subsidiaries as at 31 December 2020. 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	3,951,916	1,422,776	1,445,244	467,093	1,943,767
Total liabilities	23,745	114,201	342,393	150,169	744,726
Total equity	3,928,171	1,308,575	1,102,851	316,924	1,199,041

39. MATERIAL SUBSIDIARIES (continued)

The following table summarizes the statement of financial position of the 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	4,335,907	1,336,336	1,574,207	555,690	1,946,725
Total liabilities	22,714	112,948	309,604	127,347	571,916
Total equity	4,313,193	1,223,388	1,264,603	428,343	1,374,809

The following table summarizes the statement of profit and loss of these subsidiaries for the year ended 31 December 2020. 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	151	161,867	109,148	34,036	12,459
(Loss) / profit for the year	(248,947)	101,266	(162,624)	(113,271)	(68,267)
Total comprehensive (loss) / income for the year	(245,347)	103,114	(161,752)	(111,419)	(69,637)

The following table summarizes the statement of profit and loss 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*
Revenue	6,625	201,181	94,053	36,863	22,401
(Loss) / profit for the year	(96,264)	126,425	(108,311)	(32,356)	(81,154)
Total comprehensive (loss) / income for the year	(92,718)	126,052	(108,028)	(31,986)	(77,779)

40. IMPACT OF COVID-19

The coronavirus ("COVID-19"), which was declared as pandemic by the WHO during March 2020, has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. The fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications.

For most of the 2020 financial year, the Group's operations were severely impacted by the actions taken by governments to address the health impacts of the COVID-19 global pandemic. This included imposing travel restrictions and international and domestic border closures, which have significantly disrupted air travel. The COVID-19 Outbreak has impacted the Group across its segments (real estate, and hospitality) which is reflected in its financial results for the year ended 31 December 2020.

40. IMPACT OF COVID-19 (Continued)

Given the scale of the outbreak, the Group has assessed the potential impacts of the outbreak on its operations due to the restrictions placed by various government institutions to curb or delay the spread of COVID-19. The Group has ensured to implement health and safety measures for its employees, customers, contractors and its communities. The Group operates mainly in development of real estate properties, wherein the Group expects that the outbreak would likely impact the prices and demand of properties. In the short term, the development initiatives and economic activity within the real estate sector continue to be constrained. The Group is closely monitoring the situation and has activated its business continuity planning and other risk management practices including rationalizing its operations, optimizing staff levels and operating cash and working closely with its suppliers and customers to minimize impact on revenue and costs to manage the potential business disruption COVID-19 outbreak may have on its operations and financial performance.

As the lockdown started to ease and travel recommenced in the second half of 2020, the Group witnessed increased real estate sales, improved occupancy in hotels as compared to the initial time of the pandemic in the early part of 2020. The Group's management continues to evaluate the current situation, including pricing strategy and cost optimization initiatives.

The Group carried out an impact assessment due to uncertainties caused by COVID-19, as at 31 December 2020, as follows:

- *Provision for Expected credit losses (“ECLs”) of accounts receivables*

  The Group assesses the impairment of its financial assets carried at amortised cost based on the expected credit loss ("ECL") model. The ECL model was reassessed for the impact of COVID-19, volatility in potential economic conditions, the incidence of defaults, etc. which may likely lead to an increase in the ECL allowance for trade receivables in line with the requirements of IFRS 9 Financial Instruments. This is mainly due to an increase in the counterparty risk (risk of default) of tenants and customers. ECLs were estimated based on a range of forecast economic conditions as at 31 December 2020 and considering that the situation is fast evolving, the Group had taken the impact of volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination. The Group updated the relevant forward-looking information with respect to the weightings of the relevant macroeconomic scenarios relative to the economic climate of the market in which it operates. Accordingly, the impact on the allowance for expected credit losses on accounts receivables amounted to SR 86.3 million during the year ended 31 December 2020 (see note 20). The Group will continue to monitor the situation and its impact on the ECL and make the necessary adjustments as and when required.

40. IMPACT OF COVID-19 (Continued)

- *Impairment of non-financial assets*

  The Group's hospitality segment has been impacted from low occupancy levels and temporary closure resulting from steps taken by the Government to contain the COVID-19 outbreak. As the lockdown started to ease and travel recommenced in the second half of 2020, the Group witnessed increased real estate sales, improved occupancy in hotels as compared to the initial time of the pandemic in the early part of 2020. The key areas of assessment include estimates on the impact of future cash flows due to reduced occupancy and the discount rates, reflecting increased uncertainty. The Group assessed whether there are any indicators of impairment for all non-financial assets as at 31 December 2020. The Group estimated the expected future cash flows from the asset or cash-generating units and used multiple, probability-weighted cash flow projections due to a fast evolving situation and considered the macroeconomic outlook to calculate the present value of those cash flows after applying a discount rate that reflects the current market assessment of the time value of money. The Group had engaged ValuStrat (Khabeer Altathmen Alaqaria), an independent valuer not related to the Group, for the fair valuation exercise of the Group's property and equipment and investment properties, as at 31 December 2020. ValuStrat is a firm licensed by the Taqeem (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. The Group made an assessment of impairment of non-financial assets considering the degree of estimation uncertainty that existed in estimating the recoverable amount and the sensitivity of the recoverable amount to reasonably possible changes to key assumptions. As a result, the Group concludes that the expected drop in future cash flows from these assets is not significant to result in impairment loss on the non-financial assets, except for property and equipment, investment properties and development properties, as described below.

- *Property and equipment*
  Valuation of property and equipment is inherently subjective due to the unique characteristics of each property, its location, expected yield, revenue growth rate and discount rates reflecting increased uncertainty. During the year ended 31 December 2020, the Group has recognised an impairment loss, amounting to SR 153.1 million. (see note 14).

- *Investment properties*
  Valuation of investment properties is inherently subjective due to the unique characteristics of each property, its location, expected yield, rental growth rate and discount rates reflecting increased uncertainty. During the year ended 31 December 2020, the Group has recognised an impairment loss, amounting to SR 25.4 million. (see note 16).

- *Development properties*
  Development properties are stated at the lower of cost or net realisable value ("NRV"). NRV is assessed with reference to sales prices, estimated costs of completion and advances received, development plans and market conditions existing at the end of the reporting period and recent market transactions, where available. The management has considered COVID-19 outbreak indicators to assess the estimated realizable value of its development properties and the Group has recognised provision, amounting to SR 137.6 million, during the year ended 31 December 2020 (see note 19).

40. IMPACT OF COVID-19 (Continued)

- *Revenue and costs to complete the projects*
  The Group reviewed the changes, if any, in the estimated cost to complete the projects and determined the cost attributable to revenue being recognized. These estimates included significant judgements and uncertainty related to the changes in the estimated cost of construction, variation orders, cost of meeting other contractual obligations to the customers, and other items as a result of volatility due to COVID 19. As a result, the Group has recognized change in project cost estimate amounting to SR 14.8 million during the year ended 31 December 2020.

- *Income from the leasing and retail segment*
  As part of Group's commitment to extend support to its tenants during COVID-19 outbreak, the Group has offered arrangements of rent reliefs to its certain tenants, which are accounted for in accordance with the requirements of IFRS 16 "Leases". In addition, the management considers that it is more appropriate to only recognise lease income to the extent that the lease income is considered to be collectible. This approach addresses the concern of recognizing income when collectability is uncertain.

The Group continues to assess the impact of Covid-19 on its operations. The Group considered potential impacts of the current economic volatility in the determination of the reported amounts of the Group's financial and non-financial assets, and these are considered to represent Management's best assessment based on the observable information. Markets, however, remain volatile, and the recorded amounts remain sensitive to market fluctuations.

However, the outbreak is evolving rapidly, due to which there is a material uncertainty around the expected duration and its potential impact on the overall economy and also on the operations of the Group. Consequently, it is challenging to assess the impact of such an evolving condition with certainty at this stage, considering the limited economic information available to determine the impact of the outbreak on the economy and on the real estate sector.

41. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized to issue by the Board of Directors on 30 March 2021, corresponding to 17 Shaban 1442H.