

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

For the three-months period ended March 31, 2020
with

INDEPENDENT AUDITORS' REPORT

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three-months period ended March 31, 2020

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Independent auditors' report on review of condensed consolidated interim financial statements

To the Shareholders of Emaar The Economic City

Introduction

We have reviewed the accompanying March 31, 2020 condensed consolidated interim financial statements of Emaar The Economic City ("the Company") and its subsidiaries ("the Group"), which comprises:

- the condensed consolidated statement of profit or loss and other comprehensive income for the three-months period ended March 31, 2020;
- the condensed consolidated statement of financial position as at March 31, 2020;
- the condensed consolidated statement of changes in equity for the three-months period ended March 31, 2020;
- the condensed consolidated statement of cash flows for the three-months period ended March 31, 2020; and
- the notes to the condensed consolidated interim financial statements.

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying March 31, 2020 condensed consolidated interim financial statements of **Emaar The Economic City** and its subsidiaries are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

Independent auditors' report on review of condensed consolidated interim financial statements

To the Shareholders of Emaar The Economic City (continued)

Material Uncertainty related to Going Concern

We draw attention to Note 2.4 of the condensed consolidated interim financial statements, which indicates that the Group incurred a net loss of SR 281.5 million during the period ended March 31, 2020 and, as of that date, the Group's accumulated losses are SR 1,711 million and current liabilities exceeded its current assets by SR 1,637 million. As stated in Note 2.4, 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 review conclusion is not modified in respect of this matter.

For KPMG Al Fozan & Partners
Certified Public Accountants



Ebrahim Oboud Baeshen
License No. 382

Jeddah, Shawwal 21, 1441H
Corresponding to June 13, 2020



EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME (UNAUDITED)**

For the three-months period ended March 31, 2020
(Expressed in Saudi Arabian Riyals)

	Notes	2020 ("000")	2019 (Restated) ("000")
Revenue	6	205,395	350,605
Cost of revenue	7	(244,720)	(190,160)
GROSS (LOSS) / PROFIT		(39,325)	160,445
EXPENSES			
Selling and marketing		(15,667)	(15,147)
General and administrative		(68,315)	(65,317)
Impairment loss		(28,225)	(22,174)
Depreciation		(48,322)	(46,398)
Amortisation		(1,994)	(2,632)
(LOSS) / PROFIT FROM MAIN OPERATIONS		(201,848)	8,777
OTHER INCOME / (EXPENSES)			
Murabaha deposit income		1,516	351
Financial charges, net		(96,400)	(42,551)
Share of results of equity accounted investee	13	9,221	4,262
Other income	8	19,760	49,126
(LOSS) / PROFIT FOR THE PERIOD BEFORE ZAKAT		(267,751)	19,965
Zakat	18	(13,750)	(12,500)
NET (LOSS) / PROFIT FOR THE PERIOD		(281,501)	7,465
OTHER COMPREHENSIVE LOSS			
<i>Items that will be reclassified to condensed consolidated interim statement of profit or loss in subsequent periods:</i>			
Share of other comprehensive loss from equity accounted investee	13	(15,664)	(9,753)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(297,165)	(2,288)
(Loss) / earnings per share:			
Basic and diluted (loss) / earnings per share attributable to equity holders of the Parent Company (in SR per share)	9	(0.33)	0.009


F. A. Ali



EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at March 31, 2020

(Expressed in Saudi Arabian Riyals)

	Notes	March 31, 2020 (Unaudited) ("000")	December 31, 2019 (Audited) (Restated) ("000")	December 31, 2018 (Audited) (Restated) ("000")
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	10	5,883,463	5,930,630	5,517,751
Right-of-use assets		106,871	113,332	-
Investment properties	11	4,970,777	4,994,177	5,132,148
Unbilled revenue		610,082	690,264	183,900
Development properties	12	1,102,586	877,065	1,418,160
Intangible assets		10,982	12,516	18,616
Investment in equity accounted investees	13	2,405,484	2,411,927	2,422,565
Employees' receivable - Home Ownership Scheme		113,553	115,382	104,497
TOTAL NON-CURRENT ASSETS		15,203,798	15,145,293	14,797,637
CURRENT ASSETS				
Current portion of employees' receivable - Home Ownership Scheme		7,223	7,213	6,278
Unbilled revenue		456,081	362,141	502,344
Development properties	12	397,733	753,338	385,837
Accounts receivable and other current assets		789,397	656,661	761,538
Murabaha term deposits with banks		-	-	50,000
Cash and cash equivalents		259,222	404,393	602,632
TOTAL CURRENT ASSETS		1,909,656	2,183,746	2,308,629
TOTAL ASSETS		17,113,454	17,329,039	17,106,266
EQUITY AND LIABILITIES				
EQUITY				
Share capital		8,500,000	8,500,000	8,500,000
Statutory reserve		11,536	11,536	11,536
Accumulated losses		(1,711,377)	(1,414,212)	(868,935)
TOTAL EQUITY		6,800,159	7,097,324	7,642,601
NON-CURRENT LIABILITIES				
Long-term loans	14	6,481,250	6,556,250	7,051,250
Lease liabilities		79,423	80,625	-
Employees' terminal benefits	16	67,242	63,868	64,220
Unearned financing component on long-term receivables		107,751	116,400	68,918
Unearned interest income - Home Ownership Scheme		30,417	30,737	26,871
TOTAL NON-CURRENT LIABILITIES		6,766,083	6,847,880	7,211,259
CURRENT LIABILITIES				
Accounts payable and accruals	17	1,363,030	1,305,108	1,088,063
Accrued Zakat	18	98,950	121,816	156,843
Current portion of long-term loans	14	1,632,500	1,557,500	1,007,500
Short-term loans	15	424,141	366,398	-
Lease liabilities		28,591	33,013	-
TOTAL CURRENT LIABILITIES		3,547,212	3,383,835	2,252,406
TOTAL LIABILITIES		10,313,295	10,231,715	9,463,665
TOTAL EQUITY AND LIABILITIES		17,113,454	17,329,039	17,106,266

The attached notes 1 to 25 form integral part of these condensed consolidated interim financial statements.

EMAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the three-months period ended March 31, 2020

(Expressed in Saudi Arabian Riyals)

	<u>Share capital</u> ("000")	<u>Statutory reserve</u> ("000")	<u>Accumulated losses</u> ("000")	<u>Total Equity</u> ("000")
Balance as at December 31, 2019 (Audited)	8,500,000	11,536	(1,157,305)	7,354,231
Adjustment on application of IAS 23 – Agenda decision (Note 4)	-	-	(256,907)	(256,907)
Balance as at January 1, 2020 (Restated)	8,500,000	11,536	(1,414,212)	7,097,324
Net loss for the period	-	-	(281,501)	(281,501)
Other comprehensive loss for the period	-	-	(15,664)	(15,664)
Total comprehensive loss for the period	-	-	(297,165)	(297,165)
Balance as at March 31, 2020 (Unaudited)	8,500,000	11,536	(1,711,377)	6,800,159
Balance as at December 31, 2018 (Audited)	8,500,000	11,536	(634,077)	7,877,459
Adjustment on application of IAS 23 – Agenda decision (Note 4)	-	-	(234,858)	(234,858)
Balance as at January 1, 2019 (Restated)	8,500,000	11,536	(868,935)	7,642,601
Adjustment on initial application of IFRS 16	-	-	(626)	(626)
Adjusted balance as at January 1, 2019	8,500,000	11,536	(869,561)	7,641,975
Net profit for the period	-	-	7,465	7,465
Other comprehensive loss for the period	-	-	(9,753)	(9,753)
Total comprehensive loss for the period	-	-	(2,288)	(2,288)
Balance as at March 31, 2019 (Unaudited)	8,500,000	11,536	(871,849)	7,639,687

The attached notes 1 to 25 form integral part of these condensed consolidated interim financial statements.




EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

For the three-months period ended March 31, 2020

(Expressed in Saudi Arabian Riyals)

	Notes	2020 ("000")	2019 (Restated) ("000")
OPERATING ACTIVITIES			
(Loss) / profit for the period before Zakat		(267,751)	19,965
<i>Adjustments to reconcile (loss) / profit for the period before</i>			
<i>Zakat to net cash flows:</i>			
Depreciation		84,837	81,886
Impairment loss		28,225	22,174
Provision for development properties	7,12	73,302	-
Amortisation		1,994	2,632
Financial charges		96,400	42,551
Share of results of equity accounted investee	13	(9,221)	(4,262)
Murabaha deposit income		(1,516)	(351)
Unwinding of unearned interest income		(661)	(767)
Employees' benefit expense – Home Ownership Scheme		341	4,765
Provision for employees' terminal benefits	16	6,095	6,213
		<u>12,045</u>	<u>174,806</u>
<i>Working capital adjustments</i>			
Employees' receivable – Home Ownership Scheme		1,478	(17,611)
Unbilled revenue, net		(13,761)	(263,641)
Development properties		56,782	39,904
Accounts receivable and other current assets		(139,779)	(18,350)
Accounts payable and accruals		23,114	(82,922)
Net cash used in operations		<u>(60,121)</u>	<u>(167,814)</u>
Financial charges paid		(60,532)	(40,722)
Finance charges on lease liabilities		(1,057)	(1,387)
Zakat paid	18	(36,616)	-
Employees' terminal benefits paid	16	(2,721)	(6,160)
Net cash used in operating activities		<u>(161,047)</u>	<u>(216,083)</u>
INVESTING ACTIVITIES			
Murabaha deposit income		1,749	51
Additions to property and equipment		(22,367)	(69,978)
Additions to investment properties		(5,650)	(8,711)
Additions to intangible assets		(460)	(303)
Net cash used in investing activities		<u>(26,728)</u>	<u>(78,941)</u>
FINANCING ACTIVITIES			
Proceeds from loans		257,743	300,000
Repayments of loans		(200,000)	(150,000)
Movement in unearned interest income		(8,308)	19,202
Repayment of lease liabilities		(6,831)	-
Net cash from financing activities		<u>42,604</u>	<u>169,202</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		<u>(145,171)</u>	<u>(125,822)</u>
Cash and cash equivalents at the beginning of the period		<u>404,393</u>	<u>602,632</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		<u>259,222</u>	<u>476,810</u>

The attached notes 1 to 25 form integral part of these condensed consolidated interim financial statements.

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three-months period ended March 31, 2020
(Expressed in Saudi Arabian Riyals)

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 under Ministerial Decision No. 2533, dated Ramadan 3, 1427H, corresponding to September 21, 2006. The Company obtained its initial Commercial Registration No. 4030164269 on Ramadan 8, 1427H, corresponding to September 26, 2006. The registered office of the Parent Company has been shifted to Rabigh with a revised Commercial Registration No. 4602005884, dated Rabi Awal 6, 1436H, corresponding to December 28, 2014.

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

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

<u>Branch</u>	<u>Commercial Registration Number</u>
Jeddah	4030164269
Riyadh	1010937549
Rabigh	4602006934

The Company has investments in the following subsidiaries, which are primarily involved in the development, brokerage activities, marketing, sale/lease, operations, management and maintenance of properties, hospitality services, providing higher education and operating technical institutes:

<u>Name</u>	<u>Country of incorporation</u>	<u>Year of incorporation</u>	<u>% of capital held (directly or indirectly)</u>	
			<u>March 31, 2020</u>	<u>December 31, 2019</u>
Economic City Investments Company Limited (“ECIHC”)	Saudi Arabia	2010	100%	100%
Industrial Zones Development Company Limited (“IZDCL”)	Saudi Arabia	2011	100%	100%
Economic City Real Estate Operation and Management Company Limited (“REOM”)	Saudi Arabia	2013	100%	100%
Economic City Pioneer Real Estate Management Company Limited (“REM”)	Saudi Arabia	2013	100%	100%
Economic City Real Estate Development Company Limited (“RED”)	Saudi Arabia	2013	100%	100%
Emaar Knowledge Company Limited (“EKC”)	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 the transfer of these shares for ECIHC were completed during 2019, and for RED, REM, and REOM, these were completed during the period. For IZDCL, the legal formalities are still in progress.

Refer to note 13 for information related to equity accounted investees.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(continued)

For the three-months period ended March 31, 2020
(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION

2.1 Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with the International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

The condensed consolidated interim financial statements do not include all the information and disclosures required for the full set of annual financial statements. They should be read in conjunction with the Group's annual consolidated financial statements as at December 31, 2019. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements. In addition, results for the interim period ended March 31, 2020 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2020.

2.2 Basis of measurement

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

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

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

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

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

2.3 Functional and presentation currency

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(continued)

For the three-months period ended March 31, 2020
(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

2.4 Significant accounting judgements, estimates and assumptions

The preparation of the Group's condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. 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. The significant judgements made by management in applying the Company's accounting policies and the methods of computation and the key sources of estimation are the same as those applied to the financial statements for the year ended December 31, 2019.

Going concern

The Group incurred a net loss of SR 281.5 million during the period ended March 31, 2020, and, as of that date, the Group's accumulated losses are SR 1,711 million, which exceeds 20% of the share capital. In addition to this, the current liabilities exceeded its current assets by SR 1,637 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.

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. Additionally, all non-essential spending has been cut, and existing contracts and payment terms with the majority of its vendors have been re-evaluated. Furthermore, the Management performed a comprehensive assessment of the directional impact of COVID 19 on the Group's core operations (see note 24) and undertook various measures aimed at addressing the anticipated operational challenges and liquidity gaps. Management is currently exploring a number of options available to them to obtain sufficient finance to meet the funding requirements and the scheduled repayments to the lenders. These included, among others, restructuring of current debt obligations and obtaining additional facilities. As at March 31, 2020, the Group has existing approved facilities and will draw down the required amounts in 2020. Furthermore, discussions regarding the restructuring of the loans and repayment plans, debt conversion are already in progress with the respective lenders.

Key highlights of the mitigation plan are described below:

EMAAR THE ECONOMIC CITY
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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(continued)

For the three-months period ended March 31, 2020

(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

2.4 Significant accounting judgements, estimates and assumptions (continued)

Going concern (continued)

Aspect	Description	Measures taken
Debt restructuring	Loan due to Ministry of Finance ("MoF") – note 14(a). <i>(Principal amount: SR 5,000 million, amount included under current liabilities: SR 700 million)</i>	In January 2020, the MoF had rescheduled the first installment, which was due in June 2020, to January 2021 with the principal amount repayable in seven installments, 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 further to start from 2025.
	Loan due to commercial bank – note 14(b) <i>(Principal amount: SR 1.7 billion, amount included under current liabilities: SR 275 million)</i>	The Group had requested the lender to restructure the loan by rescheduling the repayment of the remaining balances over ten years, structured as 3 years grace period and repayment over 7 years in semi-annual installments. During the period ended March 31, 2020, the Group has received an Indicative Term Sheet from the commercial bank reflecting Bank's proposed restructuring plan, which is currently under discussion.
	Loan due to Commercial bank – note 14(b) <i>(Principal amount: SR 437.5 million, amount included under current liabilities: SR 125 million)</i>	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 in semi-annual installments. During April 2020, the lender has deferred the repayment for Q2 2020, and discussions are underway to finalize the restructuring plan.
	Loan due to commercial bank – note 14(b) <i>(Principal amount: SR 976.25 million, amount included under current liabilities: SR 532.5 million.)</i>	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 in semi-annual instalments. Discussions are underway to defer the repayments and finalize the restructuring plan.
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. The optimization plan is currently being developed and is expected to be implemented within FY 2020.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(continued)

For the three-months period ended March 31, 2020
(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

2.4 Significant accounting judgements, estimates and assumptions (continued)

Going concern (continued)

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 condensed consolidated interim 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. However, there are no signed restructuring agreements yet in place.

For the above reasons, the financial statements have been prepared on a going concern basis. Should the Group not obtain financing and the scheduled repayment terms be unsuccessful, there exists a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. 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 lockdown periods, an escalation in the severity of such measures, or a consequential adverse impact of such measures on the economic environment we operate in, may have a potential effect on the Group, and its financial position and operating results, in the medium and longer-term. The change in circumstances may require further enhanced disclosures in the financial statements of the Group for subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2019, 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 (see Note 4).

4. 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 condensed consolidated interim financial statements is as follows:

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(continued)

For the three-months period ended March 31, 2020

(Expressed in Saudi Arabian Riyals)

4. CHANGE IN SIGNIFICANT ACCOUNTING POLICY (continued)

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 interim 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.

	<u>As previously reported</u> <u>(‘000)</u>	<u>Adjustment under IAS 23</u> <u>(‘000)</u>	<u>Restated amounts</u> <u>(‘000)</u>
	As at December 31, 2019		
<u>Statement of Financial Position</u>			
Development properties - non-current portion	1,054,380	(177,315)	877,065
Development properties - current portion	790,126	(36,788)	753,338
Unbilled revenue – non-current portion	714,912	(24,648)	690,264
Unbilled revenue – current portion	362,141	-	362,141
Total assets	17,567,790	(238,751)	17,329,039
Unearned financing component on long term receivables	(98,244)	(18,156)	(116,400)
Total non-current liabilities	(6,829,724)	(18,156)	(6,847,880)
Accumulated losses	(1,157,305)	(256,907)	(1,414,212)

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4. CHANGE IN SIGNIFICANT ACCOUNTING POLICY (continued)

	As previously reported (‘000)	Adjustment under IAS 23 (‘000)	Restated amounts (‘000)
	As at December 31, 2018		
<u>Statement of Financial Position</u>			
Development properties - non-current portion	1,603,109	(184,949)	1,418,160
Development properties - current portion	411,098	(25,261)	385,837
Unbilled revenue – non-current portion	209,123	(25,223)	183,900
Unbilled revenue – current portion	502,344	-	502,344
Total assets	17,341,699	(235,433)	17,106,266
Unearned financing component on long term receivables	(69,493)	575	(68,918)
Total non-current liabilities	(7,211,834)	575	(7,211,259)
Accumulated losses	(634,077)	(234,858)	(868,935)

Statement of Profit or Loss and Other Comprehensive Income

	<u>For the year ended December 31, 2019</u>		
Revenue	986,888	(18,279)	968,609
Cost of revenue	(684,468)	26,671	(657,797)
Gross profit	302,420	8,392	310,812
Loss from main operations	(337,604)	8,392	(329,212)
Financial charges	(236,993)	(30,563)	(267,556)
Other income	102,015	121	102,135
Loss for the year before zakat	(463,808)	(22,050)	(485,858)
Zakat	(45,000)	-	(45,000)
Net loss for the year	(508,808)	(22,050)	(530,858)
Total comprehensive loss for the year	(522,619)	(22,050)	(544,669)
Loss per share (in SR per share)	(0.60)	(0.026)	(0.626)

	<u>For the three-months period ended March 31, 2019</u>		
Revenue	353,794	(3,189)	350,605
Cost of revenue	(207,345)	17,185	(190,160)
Gross profit	146,449	13,996	160,445
Loss from main operations	(5,219)	13,996	8,777
Financial charges	(22,675)	(19,876)	(42,551)
Profit for the period before zakat	25,845	(5,880)	19,965
Zakat	(12,500)	-	(12,500)
Net profit for the period	13,345	(5,880)	7,465
Total comprehensive income for the period	3,592	(5,880)	(2,288)
Earnings per share (in SR per share)	0.016	(0.007)	0.009
<i>Impact on statement of cash flows (net cash flows):</i>			
Operating activities	(216,264)	181	(216,083)
Investing activities	(78,941)	-	(78,941)
Financing activities	169,383	(181)	169,202

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5. 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 condensed consolidated interim financial statements are disclosed below. The Group intends to adopt these standards, where applicable when they become effective.

<i>Standard / Interpretation</i>	<i>Description</i>	<i>Effective from periods beginning on or after the following date</i>
IFRS 17	Insurance contracts	January 01, 2021
IAS 1	Classification of liabilities as current or non-current	January 01, 2022
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 implications of adopting the above-mentioned standards, amendments or interpretations on its financial statements on adoption, where applicable.

6. REVENUE

	Three-months period ended March 31, 2020	Three-months period ended March 31, 2019 (Restated)
	("000")	("000")
Revenue by operating segments:		
Residential business	132,572	231,096
Industrial development	29,091	77,892
Hospitality and leisure	25,506	23,803
Others	18,226	17,814
	205,395	350,605
Revenue by nature:		
Sale of properties	115,905	263,645
Leasing	34,021	42,847
Hospitality	24,098	22,855
Others	31,371	21,258
	205,395	350,605

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7. COST OF REVENUE

	Three-months period ended March 31, 2020 ("000")	Three-months period ended March 31, 2019 (Restated) ("000")
Cost of properties	64,011	90,604
Provision for development properties (note 12)	73,302	-
Depreciation	36,515	35,488
Employees' costs	18,064	18,770
Hospitality	5,707	4,347
Others	47,121	40,951
	244,720	190,160

8. OTHER INCOME

The following are the main components of other income:

- i) The Group has entered into an agreement ("the Agreement") with two external parties to develop, finance and operate an academic educational institute at KAEC. In accordance with the terms of the Agreement, the net life cycle operating loss of the Institute is to be funded by one of the parties to the Agreement, to the extent of USD 58.5 million. Consequently, the net operating loss of the subject institute, amounting to SR 6.3 million (March 31, 2019: SR 9.2 million), incurred during the period, has been accounted for as an other income accordingly.
- ii) Unwinding of interest income on significant financing component amounting to SR 9.4 million (March 31, 2019: SR 11.06 million).
- iii) During the period, the Group has entered into agreements with certain customers for the sale of investment properties resulting in a gain of SR Nil (March 31, 2019: SR 26.1 million).

9. (LOSS) / EARNINGS PER SHARE

Basic (loss) / earnings per share is calculated by dividing the net (loss) / profit for the period attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the period.

Diluted (loss) / earnings per share is calculated by dividing the net (loss) / 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 period 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 loss per share equals the diluted loss per share. Moreover, no separate loss per share calculation from continuing operations has been presented since there were no discontinued operations during the period.

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9. (LOSS) / EARNINGS PER SHARE (continued)

The (loss) / earnings per share calculation is given below:

	Three-months period ended March 31, 2020	Three-months period ended March 31, 2019 (Restated)
Net (loss) / profit attributable to equity holders of the Parent Company (SR '000)	(281,501)	7,465
Weighted average number of ordinary shares ('000)	850,000	850,000
(Loss) / earnings per share (Saudi Arabian Riyals) – Basic and Diluted	(0.33)	0.009

10. PROPERTY AND EQUIPMENT

Property and equipment mainly include infrastructure assets, amounting to SR 2,530 million (December 31, 2019: SR 2,551 million), and capital work in progress ("CWIP"), amounting to SR 1,804 million (December 31, 2019: SR 1,817 million), which represents construction costs in respect of the infrastructure and other projects at KAEC. During the three-months period ended March 31, 2020, additions in CWIP amounted to SR 26.3 million (December 31, 2019: SR 468 million).

11. INVESTMENT PROPERTIES

Investment properties include Greenfield land and associated costs, amounting to SR 2,821 million (December 31, 2019: SR 2,821 million), and properties completed and under construction, net of accumulated depreciation and impairment, amounting to SR 2,150 million (December 31, 2019: SR 2,173 million). Based on an impairment exercise conducted by the Management on investment properties, the Group has recognised an impairment loss, amounting to SR 15.6 million, during the three-months period ended March 31, 2020.

The fair value of the Group's investment properties, based on the valuation performed by an independent valuer, as at December 31, 2019, amounted to SR 47,413 million. The Management believes that the fair value, as at March 31, 2020, is not materially different from the fair value as at December 31, 2019.

12. DEVELOPMENT PROPERTIES

The Group carried out an assessment of net realizable value for development properties and recognized a provision, amounting to SR 73.3 million, during the three-months period ended March 31, 2020.

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13. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES

	March 31, 2020 ("000")	December 31, 2019 ("000")
Investment in Ports Development Company ("PDC") (see note (a) below)	2,359,694	2,366,137
Investment in Biyoutat Progressive Company for Real Estate Investment & Development ("Biyoutat") (see note (b) below)	45,790	45,790
	2,405,484	2,411,927
a) Investment in PDC – Joint Venture		
	March 31, 2020 ("000")	December 31, 2019 ("000")
Investment	2,487,520	2,487,520
Purchase of shares from other shareholders	117,480	117,480
	2,605,000	2,605,000
Share of results of an equity accounted investee:		
Balance at beginning of the period / year	48,851	59,489
Share of profit for the period / year, net of Zakat charge	9,221	7,983
Share of other comprehensive loss for the period / year	(15,664)	(18,621)
	42,408	48,851
Balance at the end of the period / year	42,408	48,851
Elimination of share of profit on the sale of land and commission income	(287,714)	(287,714)
Group's carrying amount of the investment	2,359,694	2,366,137

During the year ended December 31, 2017, PDC has 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 flows on the long term loan from a floating rate to a fixed rate during the entire tenure of the loan agreements. Cash flow hedges that 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 condensed consolidated interim statement of profit or loss.

At March 31, 2020, the subject Swap Contracts had a negative fair value of SR 110.11 million (December 31, 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 the statement of profit or loss and other comprehensive income. The Group has recorded an amount of SR 15.6 million (December 31, 2019: SR 19.08 million), within other comprehensive loss of the condensed consolidated interim statement of profit or loss and other comprehensive income, being the portion of its share.

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13. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES (continued)

a) Investment in PDC – Joint Venture (continued)

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) Investment in Biyoutat - Associate

During 2016, the Company entered into an arrangement with an entity owned by a local Saudi group to incorporate a new entity, Biyoutat, a limited liability company, 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 period/year are considered insignificant for the Group.

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

	March 31, 2020 ("000")	December 31, 2019 ("000")
Initial investment	200	200
Additional investment	53,755	53,755
Elimination of share of profit on sale of land	<u>(8,165)</u>	<u>(8,165)</u>
	<u>45,790</u>	<u>45,790</u>

14. LONG-TERM LOANS

	March 31, 2020 ("000")	December 31, 2019 ("000")
Ministry of Finance ("MoF") loan (see note (a) below)	5,000,000	5,000,000
Others (see note (b) below)	<u>3,113,750</u>	<u>3,113,750</u>
	<u>8,113,750</u>	<u>8,113,750</u>
Current portion of long-term loans (see note (a) and (b) below)	<u>(1,632,500)</u>	<u>(1,557,500)</u>
Non-current portion of long-term loans	<u>6,481,250</u>	<u>6,556,250</u>

- (a) During 2011, the Parent Company received a loan of SR 5,000 million from the Ministry of Finance ("MoF") for the development of KAEC. The loan is secured against pledge of 24.7 million sqm of the Greenfield land and carries annual commission at commercial rates and was originally repayable, with a three years grace period, in seven annual installments commencing from June 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 carried out with the Ministry of Finance, the MoF has rescheduled the first installment due in June 2020 to January 2021. Hence, the principal amount is now repayable in seven installments, commencing from January 2021, with accrued commission payable on an annual basis.

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14. 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 March 31, 2020, amounted to SR 976.25 million (December 31, 2019: SR 976.25 million). As per the terms of the agreement, the loan is repayable in eight bi-annual installments from June 30, 2018 to December 31, 2021. The installments due within twelve-months, amounting to SR 532.5 million, are classified as a current liability. The loan is secured against part of KAEC's greenfield land, having a value of SR 3,002 million, held by the Parent Company, and an order note for SR 2,500 million.

During 2015, the Parent Company signed an Islamic facility agreement with a commercial bank for SR 1,000 million that carries commission at commercial rates. The outstanding balance of the long-term loan, as at March 31, 2020, amounted to SR 437.5 million (December 31, 2019: SR 437.5 million). As per the terms of the agreement, the loan is repayable in eight bi-annual installments from October 20, 2019 to April 20, 2023. The installments due within twelve-months, amounting to SR 125 million, are classified as a current liability. The loan is secured against part of KAEC's greenfield land, held by the Parent Company, for a total required value of SR 1,500 million, out of which 92% has already been perfected, and remaining is in progress. The subject loan is further secured by an order note of SR 1,200 million.

During 2014 and 2015, the Company signed two facility agreements with a commercial bank for SR 1,000 million, each carrying commission at prevailing commercial rates. The outstanding balance of the subject loan facilities, as at March 31, 2020, amounted to SR 1,700 million (December 31, 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. The installments due within twelve-months, amounting to SR 275 million, are classified as a current liability. The loan facilities are secured against part of KAEC's greenfield land for a total required value of SR 3,000 million. Moreover, the subject loan facilities are further secured by order notes of SR 2,250 million.

Furthermore, discussions regarding the restructuring of the loans and repayment plans are already in progress. For details, please refer to note 2.4.

15. 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 March 31, 2020, amounted to SR 170 million and SR 3.67 million (December 31, 2019: SR 170 million), respectively.

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15. 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 2,500 million. The outstanding balance of the working capital and DC facility, as at March 31, 2020, amounted to SR 150 million and SR 50.4 million (December 31, 2019: SR 150 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 March 31, 2020, amounted to SR 50 million and SR Nil, respectively.

16. 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 period/year ended is as follows:

	March 31, 2020 ("000")	December 31, 2019 ("000")
Balance at the beginning of the period / year	63,868	64,220
<i>Included in condensed consolidated interim statement of profit or loss:</i>		
Current service cost	5,611	14,421
Interest cost	484	2,813
	6,095	17,234
<i>Included in condensed consolidated interim statement of other comprehensive income:</i>		
Remeasurement gain arising from:		
- Financial assumptions	-	(448)
- Experience adjustments	-	(4,362)
Actuarial gain	-	(4,810)
Benefits paid	(2,721)	(12,776)
Balance at the end of the period / year	67,242	63,868

There has been no change in actuarial assumptions for the three-months period ended March 31, 2020. Hence, actuarial gain/loss for the period is nil.

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16. EMPLOYEES' TERMINAL BENEFITS (continued)

Actuarial assumptions

Following were the principal actuarial assumptions applied at the reporting date:

	March 31, 2020	December 31, 2019
Discount rate	2.97%	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

17. ACCOUNTS PAYABLE AND ACCRUALS

	March 31, 2020 ("000")	December 31, 2019 ("000")
Trade payable	419,641	401,907
Accrued financial charges	252,835	218,024
Retentions payable	214,830	223,121
Contract cost accruals	114,605	132,223
Advances from customers	99,248	94,069
Amounts to be donated for charitable purposes (see note below)	44,038	44,321
Amounts due to related parties (note 19)	11,420	15,106
VAT payable	15,017	3,737
Accrued expenses and other payables	165,188	154,083
Unearned interest income - Home Ownership Scheme	3,307	3,307
Unearned income	22,901	15,210
	<u>1,363,030</u>	<u>1,305,108</u>

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.

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18. ZAKAT

Charge for the period / year

	March 31, 2020 ("000")	December 31, 2019 ("000")
Charge for the period / year	<u>13,750</u>	<u>45,000</u>

The provision for the period / year is based on consolidated Zakat base of the Parent company and its subsidiaries.

Movement in provision

The movement in the Zakat provision is as follows:

	March 31, 2020 ("000")	December 31, 2019 ("000")
At the beginning of the period/year	121,816	156,843
Charge for the period / year	13,750	45,000
Payments during the period / year	<u>(36,616)</u>	<u>(80,027)</u>
At the end of the period / year	<u>98,950</u>	<u>121,816</u>

19. 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 13, the following are the significant related party transactions during the period and the related balances:

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19. RELATED PARTY TRANSACTIONS (continued)

<i>Related party</i>	<i>Nature of transactions</i>	<i>Amounts of Transactions for the three-months period ended</i>		<i>Balance as at</i>	
		<i>March 31, 2020</i>	<i>March 31, 2019</i>	<i>March 31, 2020</i>	<i>December 31, 2019</i>
		<i>SR' 000</i>	<i>SR' 000</i>	<i>SR' 000</i>	<i>SR' 000</i>
<u>Amounts due from related parties:</u>					
Other related parties	Lease rentals, utilities and service charges	341	1,220	2,491	3,211
	Sale of properties	1,030	2,566	1,696	1,650
Joint Venture	Lease rentals and utilities charges	-	107	854	971
Key management personnel	Sale of properties, utilities and service charges	48	54	35	895
	Lease rentals	83	-	269	222
Board of directors	Sale of properties, utilities and service charges	70	31	250	231
	Lease rentals	65	-	221	147
Total				5,816	7,327
<u>Amounts due to related parties:</u>					
Other related parties	Expenses incurred on behalf of the Group	-	-	(399)	(2,619)
	Services provided to the Group	1,644	103	(1,949)	(415)
	Advance against the sale of properties and leased units	-	-	(7,958)	(7,961)
	Purchase of goods	-	10	-	-
Other related parties with significant influence	Expenses incurred on behalf of the Group	-	-	(89)	(89)
Key management personnel	Remuneration	3,311	5,037	-	-
Board of directors	Remuneration and meeting fees	1,025	1,050	(1,025)	(4,003)
	Advance received against services	-	-	-	(19)
Total				(11,420)	(15,106)

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19. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel of the Group

	March 31, 2020 SR' 000	March 31, 2019 SR' 000
Short-term employee benefits	2,836	2,984
Non-monetary benefits	153	90
Post-employment benefits	315	552
Termination benefits	7	1,411
	<u>3,311</u>	<u>5,037</u>
Amount due to key management personnel	<u>7,861</u>	<u>8,517</u>

20. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to disclosures set out in note 14 and 15, contingent liabilities and commitments, as at March 31, 2020, are described as below:

- (a) The Group has outstanding commitments related to future expenditure for the development of KAEC in the coming few years, amounting to SR 763.5 million (December 31, 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 expect a favourable outcome of all the pending litigation against the Group. Accordingly, no provision has been made in these condensed consolidated interim financial statements.
- (c) Subsequent to the quarter end, the Company has received assessment for the fiscal year ended 31 December 2014 with an additional Zakat liability of SR 67.7 million. The Company is currently reviewing the GAZT's assessments and is expected to file an appeal.
- (d) IZDCL finalized its Zakat status up to the year 2012. The GAZT issued Zakat assessment for the years 2013 to 2015 and claimed additional Zakat of SR 4.6 million. IZDCL has objected against the GAZT assessment, providing the supporting documents for its position. GAZT has transferred the case to the General Secretariat of Tax Committees (GSTC), and IZDCL has also registered an appeal on GSTC's portal. The GAZT has provided their comments on the appeal filed, which have been duly responded to and feedback is awaited.
- (e) The Company has provided a corporate guarantee along with promissory notes to a commercial bank, limited to SR 1,350 million plus any Murabaha profits due to be paid by the PDC, to allow PDC to secure Shariah compliant Murabaha facility to partially finance the construction costs of the Port. Moreover, the subject loan is also secured by a pledge of the shares of the Company in PDC.
- (f) 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 December 31, 2017, PDC availed the subject Murabaha facility, amounting to SR 150 million, to finance its working capital requirements. The subject facility has been enhanced to SR 180 million during 2018. In this connection, the Company had also provided promissory notes, amounting to SR 75 million, which has been enhanced to SR 90 million during 2019, plus any Murabaha profits due to be paid by the PDC.

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21. SEGMENTAL INFORMATION

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

<i>Three-months period ended:</i>	<i>Residential business SR'000</i>	<i>Industrial development SR'000</i>	<i>Hospitality and leisure SR'000</i>	<i>Others SR'000</i>	<i>Adjustments and eliminations SR'000</i>	<i>Total SR'000</i>
31 March 2020						
Revenue						
External customers	132,572	29,091	25,506	18,226	-	205,395
Inter-segment	3,768	-	8,103	29,419	(41,290)	-
	<u>136,340</u>	<u>29,091</u>	<u>33,609</u>	<u>47,645</u>	<u>(41,290)</u>	<u>205,395</u>
Results						
Cost of inventories and services recognised as an expense	(146,512)	(6,502)	(7,484)	(13,971)	31,447	(143,022)
Impairment loss	(11,522)	-	(5,855)	(10,848)	-	(28,225)
Financial charges	(42)	-	(1,038)	(95,320)	-	(96,400)
Murabaha deposit income	5	-	-	1,511	-	1,516
Depreciation	(6,100)	(6,069)	(18,793)	(53,875)	-	(84,837)
Amortisation	(87)	-	(5)	(1,902)	-	(1,994)
Share of results of equity accounted investee	-	-	-	9,221	-	9,221
Un-allocated other income / (expenses)	(21,257)	985	(22,302)	(86,831)	-	(129,405)
Loss before Zakat						<u>(267,751)</u>

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21. SEGMENTAL INFORMATION (continued)

Operating Segments (continued)

	<i>Residential business SR'000</i>	<i>Industrial development SR'000</i>	<i>Hospitality and leisure SR'000</i>	<i>Others SR'000</i>	<i>Adjustments and eliminations SR'000</i>	<i>Total SR'000</i>
<i>Three-months period ended:</i>						
31 March 2019						
Revenue						
External customers	231,096	77,892	23,803	17,814	-	350,605
Inter-segment	3,287	1,212	6,909	23,358	(34,766)	-
	<u>234,383</u>	<u>79,104</u>	<u>30,712</u>	<u>41,172</u>	<u>(34,766)</u>	<u>350,605</u>
Results						
Cost of inventories and services recognised as an expense	(88,834)	(11,709)	(56)	(20,849)	26,355	(95,093)
Impairment loss	(673)	-	(1,656)	(19,845)	-	(22,174)
Financial charges	(84)	-	(1,158)	(41,309)	-	(42,551)
Murabaha deposit income	14	113	14	210	-	351
Depreciation	(12,035)	(5,517)	(18,832)	(45,502)	-	(81,886)
Amortisation	(11)	-	-	(2,621)	-	(2,632)
Share of results of equity accounted investee	-	-	-	4,262	-	4,262
Un-allocated other income / (expenses)	(19,293)	20,959	(18,868)	(73,715)	-	(90,917)
Profit before Zakat						<u>19,965</u>

22. 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.

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22. LIQUIDITY RISK (continued)

The Group has additional approved facilities (refer note 14) and is currently in the process to withdraw appropriate required amounts in the first half of 2020. Furthermore, discussions regarding the restructuring of the loans and repayment plans are already in progress with the respective banks. (refer note 2.4 and 14).

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

March 31, 2020	<i>Less than 3 months SR'000</i>	<i>3 to 12 months SR'000</i>	<i>More than 12 months SR'000</i>	<i>Total SR'000</i>
Loans	353,750	1,702,891	6,481,250	8,537,891
Lease liabilities	-	31,958	219,442	251,400
Accounts payable and accruals	-	1,237,574	-	1,237,574
	<u>353,750</u>	<u>2,972,423</u>	<u>6,700,692</u>	<u>10,026,865</u>
December 31, 2019	<i>Less than 3 months SR'000</i>	<i>3 to 12 months SR'000</i>	<i>More than 12 months SR'000</i>	<i>Total SR'000</i>
Loans	-	1,923,898	6,556,250	8,480,148
Lease liabilities	-	37,501	94,466	131,967
Accounts payable and accruals	-	1,192,522	-	1,192,522
	<u>-</u>	<u>3,153,921</u>	<u>6,650,716</u>	<u>9,804,637</u>

23. 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).

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23. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

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 March 31, 2020, and December 31, 2019, the fair values of the Group's financial instruments are estimated to approximate their carrying amounts and are classified under level 3 of the fair value hierarchy. No significant inputs were applied in the valuation of accounts receivables as at March 31, 2020 and December 31, 2019.

During the three-months period ended March 31, 2020, there were no movements between the levels.

24. IMPACT OF COVID-19

The coronavirus ("COVID-19") pandemic 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.

The Group is closely monitoring the situation and has activated its business continuity planning and other risk management practices to manage the potential business disruption COVID-19 outbreak may have on its operations and financial performance.

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

- Provision for Expected credit losses ("ECLs") of accounts receivables

ECLs were estimated based on a range of forecast economic conditions as at March 31, 2020 and considering that the situation is fast evolving, the Group had taken the impact of higher 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 6.8 million during the three-month period ended March 31, 2020.

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24. IMPACT OF COVID-19 (continued)

- *Impairment of non-financial assets*

The Group assessed whether there are any indicators of impairment for all non-financial assets as at March 31 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. The Group had performed a sensitivity analysis for the fair value of the Group's investment properties, as at March 31 2020, on the basis of the valuation exercise carried out by ValuStrat (Khabeer Altathmen Alaqaria), an independent valuer not related to the Group, as at December 31 2019. ValuStrat is a firm licensed by the Taqueem (Saudi Authority for Accredited Valuers) and is also regulated by the Royal Institution of Chartered Surveyors ("RICS"). Valustrat holds appropriate qualifications and relevant experience in assessing the valuation for the relevant land and properties. The Group made a robust 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.

- *Investment properties*

Based on an impairment exercise conducted by the Management on investment properties, the Group has recognised an impairment loss, amounting to SR 15.6 million, during the three-month period ended March 31, 2020. (see note 11).

- *Development properties*

Pursuant to net realizable values test of development properties conducted by the Management as at March 31, 2020, the Group has recognised provision, amounting to SR 73.3 million, during the three-month period ended March 31, 2020 (see note 12).

- *Revenue and cost 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 Management concludes that no adjustment is required in the estimated cost to complete the projects as at March 31, 2020.

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.

25. DATE OF APPROVAL AND AUTHORISATION FOR ISSUE

The condensed consolidated interim financial statements were approved and authorized for issue by the Company's Board of Directors on Shawwal 20, 1441H, corresponding to June 12, 2020.