Dur Hospitality Company
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

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(A Saudi Joint Stock Company)

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Independent Auditor's Report
To the shareholders of Dur Hospitality Company
(A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Dur Hospitality Company ("the Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent Auditor's Report
To the shareholders of Dur Hospitality Company
(A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of property and equipment	
At 31 December 2019, total property and equipment of the Group amounted to SR 2.5 billion, representing 71% of total assets. The Group's management (" the management"), on an annual basis, reviews the carrying values of its property and equipment to assess whether there is an indication of impairment. If an indication exists, the management estimates the recoverable amounts. The management reviews the indication of impairment in the value of its property and equipment, taking into account the following internal and external factors: • General indicators for significant impairment in the value of property and equipment. • Significant changes with negative impact in relation to economical or regulatory factors or the sector in which the Group operates. • Evidence of obsolesce or damage to property and equipment. • Significant changes with negative impact on property and equipment including business discontinuation or disposal plans. • Recurring operational losses of the cash-generating unit ("CGU") associated with property and equipment. We considered this as a key audit matter, since the assessment of impairment indicators requires a significant management judgment in determination of the internal and external impairment indicators. Also, the potential impairment, if any, may have significant impact on the consolidated statement of financial position and consolidated result of operations of the Group. Refer to note (2.3) to the consolidated financial statements for the accounting policy of impairment of non-financial assets and note (12) for the disclosure of property and equipment.	Audit procedures that we performed included the following: • Assessed the appropriateness of the management's procedures to ensure whether an indication of impairment exists or not. • Obtained and reviewed the management report to assess whether there is an indication of impairment. • Reviewed the management reports, on a sample basis, to assess the physical condition of property and equipment. • Reviewed the internal reports (including the Board of Directors minutes of meetings) to assess any future plans in relation to property and equipment. • Reviewed the statement of operating income for CGU associated with property and equipment during the year. • Assessed the adequacy of the Group's disclosures relating to impairment of non-financial assets in the consolidated financial statements.

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Independent Auditor's Report
To the shareholders of Dur Hospitality Company
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Other Information included in the Group's 2019 Annual Report

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law 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 are responsible for overseeing the Group's financial reporting process

Independent Auditor's Report
To the shareholders of Dur Hospitality Company
(A Saudi Joint Stock Company) (continued)

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

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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Independent Auditor's Report
To the shareholders of Dur Hospitality Company
(A Saudi Joint Stock Company) (continued)

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

for Ernst & Young

Fahad M. Al-Toaimi
Certified Public Accountant
Registration No. 354

Riyadh: 1 Rajab 1441H
(25 February 2020)

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Note	***2019*** *SR*	*2018* *SR*
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	**135,680,579**	139,789,605
Trade receivables	6	**141,276,119**	104,053,300
Due from related parties	7	**4,994,909**	22,250,094
Prepayments and other current assets	8	**51,138,846**	23,410,446
Inventories	9	**23,059,545**	22,829,074
TOTAL CURRENT ASSETS		**356,149,998**	312,332,519
NON-CURRENT ASSETS			
Investment at fair value through other comprehensive income (FVOCI)		**7,000,000**	7,000,000
Investment in equity accounted investees	10	**14,309,065**	25,191,200
Right of use assets	11	**298,143,110**	-
Advance for rent - noncurrent portion	8	**40,316,800**	-
Property and equipment	12	**2,492,482,172**	1,894,297,557
Capital work in progress	13	**319,425,744**	685,421,245
TOTAL NON-CURRENT ASSETS		**3,171,676,891**	2,611,910,002
TOTAL ASSETS		**3,527,826,889**	2,924,242,521
LIABILITIES AND EQUITY			
LIABILITIES			
CURRENT LIABILITIES			
Trade payables		**58,377,275**	16,398,327
Accrued expenses and other current liabilities	14	**165,012,179**	190,202,409
Due to related parties	7	**38,160,305**	39,445,341
Term loans - current portion	15	**131,912,230**	92,491,060
Dividend payable	22	**47,230,659**	47,074,234
Lease liabilities - current portion	16	**21,347,688**	-
Provision for zakat	17	**13,169,476**	15,627,777
TOTAL CURRENT LIABILITIES		**475,209,812**	401,239,148
NON-CURRENT LIABILITIES			
Term loans - noncurrent portion	15	**841,355,862**	655,525,586
Employees' terminal benefits liabilities	18	**59,564,582**	56,480,888
Lease liabilities- noncurrent portion	16	**359,948,110**	-
TOTAL NON-CURRENT LIABILITIES		**1,260,868,554**	712,006,474
TOTAL LIABILITIES		**1,736,078,366**	1,113,245,622

The attached notes 1 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at 31 December 2019

	Note	***2019*** ***SR***	*2018* *SR*
EQUITY			
Share capital	19	**1,000,000,000**	1,000,000,000
Statutory reserve	20	**500,000,000**	500,000,000
Contractual reserve	21	**143,002,490**	143,002,490
Retained earnings		**98,399,490**	131,662,069
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**1,741,401,980**	1,774,664,559
Non-controlling interest		**50,346,543**	36,332,340
TOTAL EQUITY		**1,791,748,523**	1,810,996,899
TOTAL LIABILITIES AND EQUITY		**3,527,826,889**	2,924,242,521

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2019

	Note	*2019* SR	*2018* SR
Hospitality income	23	**435,608,058**	352,800,574
Rental income		**111,605,597**	95,872,309
Management fees income	23	**6,632,471**	5,389,534
TOTAL REVENUE		**553,846,126**	454,062,417
COST OF REVENUE	24	**(434,669,236)**	(345,981,459)
GROSS PROFIT		**119,176,890**	108,080,958
EXPENSES			
Selling and marketing		**(1,713,680)**	(1,056,191)
General and administration	25	**(41,199,833)**	(37,493,432)
TOTAL EXPENSES		**(42,913,513)**	(38,549,623)
OPERATING INCOME		**76,263,377**	69,531,335
Financial charges	15	**(23,336,833)**	(6,620,108)
Financial charges on lease liabilities	16	**(15,947,631)**	-
Finance income		**1,608,397**	1,420,543
Other income, net	26	**20,772,582**	5,501,221
Share in net results of equity accounted investees	10	**(1,342,430)**	(1,083,275)
Additional charges for a legal liability	27	**-**	(7,353,987)
INCOME BEFORE ZAKAT		**58,017,462**	61,395,729
Zakat	17	**(5,250,451)**	(5,140,558)
NET INCOME FOR THE YEAR		**52,767,011**	56,255,171
Attributable to:			
Equity holders of the parent		**53,003,675**	57,462,355
Non-controlling interest		**(236,664)**	(1,207,184)
		52,767,011	56,255,171
Basic and diluted earnings per share attributable to equity holders of the parent	28	**0.53**	0.57

The attached notes 1 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	***2019*** ***SR***	*2018* *SR*
NET INCOME FOR THE YEAR		**52,767,011**	56,255,171
OTHER COMPREHENSIVE INCOME			
Items that will not to be reclassified to consolidated statement of income:			
Actuarial loss on re-measurement of employees' terminal benefits liabilities	18	**(1,803,821)**	(6,247,982)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**50,963,190**	50,007,189
Attributable to:			
Equity holders of the parent		**50,977,253**	50,665,062
Non-controlling interest		**(14,063)**	(657,873)
		50,963,190	50,007,189

The attached notes 1 to 32 form an integral part of these consolidated financial statements.

Dur Hospitality Company
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Note	*Share capital SR*	*Statutory reserve SR*	*Contractual reserves SR*	*Retained earnings SR*	*Total SR*	*Non-controlling interest SR*	*Total equity SR*
For the year ended 31 December 2019								
At the beginning of the year		1,000,000,000	500,000,000	143,002,490	131,662,069	1,774,664,559	36,332,340	1,810,996,899
Impact of adopting IFRS 16 at 1 January 2019		-	-	-	(59,239,832)	(59,239,832)	-	(59,239,832)
Restated balance at the beginning of the year		1,000,000,000	500,000,000	143,002,490	72,422,237	1,715,424,727	36,332,340	1,751,757,067
Net income for the year		-	-	-	53,003,675	53,003,675	(236,664)	52,767,011
Other comprehensive loss for the year		-	-	-	(2,026,422)	(2,026,422)	222,601	(1,803,821)
Total comprehensive income for the year		-	-	-	50,977,253	50,977,253	(14,063)	50,963,190
Dividends	22	-	-	-	(25,000,000)	(25,000,000)	-	(25,000,000)
Acquisition of a subsidiary (Note 1)		-	-	-	-	-	14,028,266	14,028,266
At the end of the year		**1,000,000,000**	**500,000,000**	**143,002,490**	**98,399,490**	**1,741,401,980**	**50,346,543**	**1,791,748,523**
For the year ended 31 December 2018								
At the beginning of the year		1,000,000,000	500,000,000	143,002,490	144,618,292	1,787,620,782	37,610,812	1,825,231,594
Impact of adopting IFRS 9 at 1 January 2018		-	-	-	(8,621,285)	(8,621,285)	(620,599)	(9,241,884)
Restated balance at the beginning of the year		1,000,000,000	500,000,000	143,002,490	135,997,007	1,778,999,497	36,990,213	1,815,989,710
Net income for the year		-	-	-	57,462,355	57,462,355	(1,207,184)	56,255,171
Other comprehensive loss for the year		-	-	-	(6,797,293)	(6,797,293)	549,311	(6,247,982)
Total comprehensive income for the year		-	-	-	50,665,062	50,665,062	(657,873)	50,007,189
Dividends	22	-	-	-	(55.000.000)	(55.000.000)	-	(55,000,000)
At the end of the year		1,000,000,000	500,000,000	143,002,490	131,662,069	1,774,664,559	36,332,340	1,810,996,899

The attached notes 1 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	**2019** **SR**	2018 SR
OPERATING ACTIVITIES			
Income before zakat		**58,017,462**	61,395,729
Adjustments for:			
Depreciation of property and equipment	12	**75,563,594**	67,412,889
Depreciation of right of use assets	11	**16,870,709**	-
Provision for trade receivable expected credit loss, net		**(206,251)**	(203,466)
Provision of slow moving inventory	9	**1,136,700**	1,172,378
Share in net results of equity accounted investees	10	**1,342,430**	1,083,275
Loss on sale of investment in equity accounted investees	10	**489,185**	-
Gain on sale of property and equipment		**(25,434)**	-
Employees' terminal benefits provision	18	**10,377,770**	7,666,415
		163,566,165	138,527,220
Changes in operating assets and liabilities:			
Trade receivables		**(37,016,568)**	(19,536,442)
Prepayments and other current assets		**(27,728,400)**	(3,545,778)
Advance for rent		**(40,316,800)**	-
Inventories		**(1,367,171)**	(203,012)
Due from related parties		**17,255,185**	(492,342)
Trade payables		**41,978,948**	(18,246,469)
Accrued expenses and other current liabilities		**(2,601,202)**	40,332,706
Due to related parties		**(1,285,036)**	22,759,193
Cash from operations		**112,485,121**	159,595,076
Zakat paid	17	**(7,587,475)**	(7,747,726)
Employee benefits paid	18	**(9,097,897)**	(11,616,445)
Net cash from operating activities		**95,799,749**	140,230,905
INVESTING ACTIVITIES			
Additions to property and equipment	12	**(24,286,039)**	(22,602,134)
Additions to capital work in progress	13	**(237,919,616)**	(354,662,995)
Investment in a subsidiary	1	**(37,980,000)**	-
Proceeds from sale of property and equipment		**25,434**	-
Dividends from investment		-	350,000
Net cash used in investing activities		**(300,160,221)**	(376,915,129)
FINANCING ACTIVITIES			
Proceeds from term loans, net		**225,251,446**	278,266,932
Dividends for shareholders	22	**(25,000,000)**	(55,000,000)
Net cash from financing activities		**200,251,446**	223,266,932
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(4,109,026)**	(13,417,292)
Cash and cash equivalents at the beginning of the year		**139,789,605**	153,206,897
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**135,680,579**	139,789,605

The attached notes 1 to 32 form an integral part of these consolidated financial statements.

1 CORPORATE INFORMATION

Dur Hospitality Company (the "Company" or the "Parent Company") is a Saudi Joint Stock Company formed under the Regulations for Companies and is registered in the Kingdom of Saudi Arabia ("KSA") under the commercial registration number 1010010726 dated 6 Muharram 1397H (corresponding to 27 December 1976).

The Company's activities comprise of the construction, acquisition, operation, management, entering into partnership and renting of hotels, restaurants, motels, rest stops, entertainment centers, travel agencies, private and public roads and tourism areas. In addition, the activities include the acquisition, development and sale of lands and construction of buildings thereon or renting land. The Company shall carry out its activities by itself or through others jointly or separately.

The Company has invested in the following subsidiaries, which are included in these consolidated financial statements:

		Direct and indirect Ownership %	
Subsidiary	*Share Capital SR*	***31 December 2019***	*31 December 2018*
Makkah Hotels Company Limited	165,600,000	**99.44%**	99.44%
Saudi Hotel Services Company	70,000,000	**70%**	70%
Alnakheel for Tourist Areas Company Limited	59,250,000	**98.73%**	98.73%
Nuzul Shada Hospitality Company (1)	40,000,000	**60%**	-
Tabuk Hotels Company Limited	27,300,000	**97.14%**	97.14%
Jude Alia Company Limited	100,000	**99%**	99%
Almasdar Alamny Company Limited	100,000	**95%**	95%
Al Sawaed Al Kareemah Investment and Real Estate Development Company	100,000	**95%**	95%
Sofraa Al Ewaa Hospitality Company (One Person Company)	100,000	**100%**	100%
Dara Oasis Company Limited (One Person Company)	100,000	**100%**	100%

The Company and its subsidiaries are collectively described as (the "Group") in these consolidated financial statements.

(1) On 13 March 2019, the Group acquired a new subsidiary (Nuzul Shada Hospitality Company), a limited liability company registered in the Kingdom of Saudi Arabia that operates in the field of operating of furnished apartments and has been consolidated in the group's consolidated financial statements. The assets, liabilities and results of the subsidiary's business are not material to the group.

The following are details of the subsidiaries and their activities:

Makkah Hotels Company Limited
Makkah Hotels Company Limited is a Saudi limited liability company and is registered under the commercial registration number 4031011879 dated 20 Ramadan 1402H (corresponding to 12 July 1982). The company is engaged in hospitality services inside and outside the KSA. The Company owns Makarem Ajyad Hotel in Makkah.

Saudi Hotel Services Company Limited
Saudi Hotel Services Company is a Saudi limited liability company and is registered under the commercial registration number 1010010454 dated 11 Dhul-Qadah 1396H (corresponding to 4 November 1976). The company owns Crown Plaza - Riyadh Palace Hotel.

Alnakheel for Tourist Areas Company Limited
Alnakheel for Tourist Areas Company Limited is a Saudi limited liability company and is registered under the commercial registration number 4030092204 dated 22 Jumad Thani 1413H (corresponding to 17 December 1992). The company owns Makarem Alnakheel Hotel and Resort in Jeddah.

1 CORPORATE INFORMATION (continued)

Nuzul Shada Hospitaltiy Company
Nuzul Shada Hospitality Company is a Saudi limited liability company and is registered under the Commercial Registration number 4030166369 dated 8 Muharram 1428H (corresponding to 27 January 2007). The company is engaged in general construction of residential buildings, management and leasing of owned and leased real estate (residential), and management and leasing of real estate owned or leased (non-residential).

Tabuk Hotels Company Limited
Tabuk Hotels Company Limited is a Saudi limited liability company and is registered under the commercial registration number 3550006303 dated 5 Rabi Thani 1406H (corresponding to 17 December 1985). The company owns Holiday Inn Tabuk Hotel.

Jude Alia Company Limited
Jude Alia Company Limited is a Saudi limited liability company and is registered under the commercial registration number 1010428949 dated 25 Safar 1436H (corresponding to 17 December 2014). The principal activities of the company include building and construction.

Almasdar Alamny Company Limited
Almasdar Alamny Company Limited is a Saudi limited liability company and is registered under the commercial registration number 1010433370 dated 16 Rajab 1436H (corresponding to 5 May 2015). The company is engaged in providing special civil security guard services in KSA pursuant to the Public Security letter number (3/1078413) dated 28 Rajab 1435H (corresponding to 27 May 2014).

Al Sawaed Al Kareemah Investment and Real Estate Development Company
Al Sawaed Al Kareemah Investment and Real Estate Development Company is a Saudi limited liability company and is registered under the commercial registration number 1010437489 dated 26 Dhul-Qadah 1436H (corresponding to 10 September 2015). The company is engaged in construction, transportation, storage, refrigeration, financial and business services, as well as tourist accommodation services pursuant to the license of the Saudi Commission for Tourism and National Heritage No. (37/0096/F) dated 6 Safar 1437H (corresponding to 18 November 2015).

Sofraa Al Ewaa Hospitality Company
Sofraa Al Ewaa Hospitality Company is Saudi One Person limited liability company and is registered under commercial registration number 1010901133 dated 27 Safar 1439H (corresponding to 16 November 2017). The company is engaged in providing hospitality services, establishment of restaurants, hotels and exhibitions.

Dara Oasis Company Limited
Dara Oasis Company Limited is a Saudi One Person limited liability company and is registered under commercial registration number 1010901132 dated 27 Safar 1439H (corresponding to 16 November 2017). The company is engaged in providing tourism activities.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION AND MEASUREMENT

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

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Saudi Riyal ("SR").

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company, using consistent accounting policies.

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 the following:

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

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

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

The Group re-assesses whether or not it controls an investee, if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period 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 and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. When a Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in the consolidated statement of income. Any interest retained in the former subsidiary is measured at fair value when control is lost.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Group in preparing these consolidated financial statements:

Business combinations

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in equity accounted investees
An equity accounted investee ("the investee") is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investments in its investees are accounted for using the equity method. Under the equity method, the investment is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the investees since the acquisition date. Goodwill relating to the investees is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of income reflects the Group's share of the results of operations of the investees. Any change in consolidated statement of other comprehensive income of those investees is presented as part of the Group's consolidated statement of other comprehensive income. In addition, when there has been a change recognised directly in the equity of the investees, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the investees are eliminated to the extent of the interest in those investees.

The aggregate of the Group's share of profit or loss of an investee is shown separately on the face of the consolidated statement of income.

The consolidated financial statements of the investees are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its investees. At each reporting date, the Group determines whether there is any objective evidence that the investment in the investee is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the investee and its carrying value and recognises the loss as part of 'Share in net results of equity accounted investees' in the consolidated statement of income.

Revenue
Revenue from contracts with customers
The Group provides hospitality services and property management to its customers. Revenue from contracts from customers are recognized when the control over the goods and services are transferred to the customer in an amount that reflects the compensation earned by the Group for those goods and services. The Group has concluded that it acts as a principal for all its revenue arrangements except for property management as usually it control the goods and services before they are transferred to the customer.

Hospitality services
Primarily derived from hotel operations, including the rental of rooms and food and beverage sales at the point in time when goods are provided to customers. Revenue from rooms occupancy is recognized over time.

Properties management fees
Earned from hotels managed by the Group, usually under long-term contracts with the hotel owner. Management fees include a base fee, which is generally a percentage of hotel revenue, and/or an incentive fee, which is generally based on the hotel's profitability; recognised when earned on an accrual basis under the terms of the contract.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies
The Group's consolidated financial statements are presented in Saudi Riyal, which is also the Group's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to consolidated statement of income reflects the amount that arises from using this method.

Transactions and balances
Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the consolidated financial statements date. All differences are recognised in consolidated statement of income.

Translation of group companies
Financial statements of the foreign operation are translated into Saudi Riyal using the exchange rate at each consolidated statement of financial position date, for assets and liabilities, and the average exchange rate for each period for revenues, expenses, gains and losses. Components of equity, other than retained earnings, are translated at the rate ruling at the date of occurrence of each component. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of comprehensive income.

Defined employee benefits
Short-term employee benefits
Short-term employee benefits are expensed as the related service is provided. A liability is recognised 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 contribution plans
Retirement benefit in the form of General Organization of Social Insurance ('GOSI') is a defined contribution scheme. The Group has no obligation, other than the contribution payable to the GOSI. The Group recognises contribution payable to the GOSI as an expense when due.

Defined benefit plans
A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The net pension liability recognised in the consolidated statement of financial position in respect of defined benefit post-employment plans is the present value of the projected defined benefit obligation (DBO) at the statement of financial position date. The defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method. Re-measurement amounts, if any, are recognised and reported within other reserves under the consolidated statement of changes in equity with corresponding debit or credit to consolidated statement of other comprehensive income that comprises of actuarial gains and losses on the defined benefits obligation.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat

The Company and its subsidiaries are subject to Zakat in accordance with the zakat regulation issued by the General Authority of Zakat and Tax ("GAZT") in the KSA, which is also subject to interpretations. Zakat is levied at a fixed rate of 2.5% on the higher of adjusted Zakatable profit or based on net equity using the basis defined in the zakat regulation (the Zakat base). The management establishes provisions where appropriate on the basis of amounts expected to be paid to the GAZT and periodically evaluates positions taken in the Zakat returns with respect to situations in which applicable Zakat regulation is subject to interpretation. Zakat provision is charged to the consolidated statement of income. Additional Zakat liability, if any, related to prior years' assessments arising from GAZT are accounted for in the period in which the final assessments are finalised.

Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the weighted average method. Cost of inventory includes purchase price plus all incurred expenditures in order to bring the inventory to its existing location and condition. Net realisable value comprises estimated selling price in the ordinary form of business, less selling expenses. A provision for obsolete, slow moving and defective inventories is made, when necessary.

Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses.

Any gain or loss on disposal of an item of property and equipment is recognised in the consolidated statement of income.

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

Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in the consolidated statement of income. Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate.

Capital work-in-progress

Capital work-in-progress is stated at cost and is not depreciated. Depreciation on capital work-in-progress commences when the assets are ready for their intended use and it is transferred to property and equipment. Finance costs on borrowings to finance the construction of qualified assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Trade receivable

For trade receivables hat do not contain a significant financing component, the Group applied a practical expedient. Accordingly, trade receivable are measured using the transaction price as described by IFRS 15. Refer to accounting policies for contracts with customers.

Financial assets designated at fair value through other comprehensive income

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

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

The Group elected to classify irrevocably its non-listed equity investments under this category.

The Group does not have any financial assets held at fair value through other comprehensive income (debt instruments) and at fair value through profit or loss.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

•The rights to receive cash flows from the asset have expired.
•The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
(a)the Group has transferred substantially all the risks and rewards of the asset, or
(b)the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)
Financial assets (continued)
Impairment of financial assets
For financial assets not classified at fair value through profit or loss and other comprehensive income, the Group assesses at each reporting date whether there is any objective evidence that such 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 has 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 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 changes in arrears or economic conditions that correlate with defaults.

For trade receivables and contract assets, the Group applies a simplified approach in calculating expected credit losses (ECLs).

Therefore, the Group does not track changes in credit risk, but instead recognises 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. Refer to the accounting policies in note 2.4 for ECL policy.

Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include term loans, accounts payable and due to related parties.

Loans and borrowings
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in consolidated statement of income when the liabilities are derecognised as well as through the EIR amortisation process.

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

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of 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 recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents
For the purposes of the consolidated statement of cash flows, cash and cash equivalents includes cash, bank balances and deposits with original maturities of three months or less. Bank overdraft is classified as current liabilities.

Impairment of Non-financial assets
At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

For assets excluding goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee
Finance leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Rental income

Rental income is recognised on a straight-line basis over the term of lease; lease incentives granted are recognised as an integral part of the total rental income, over the term of lease.

Fair value measurement

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy. This is described as follows based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Group determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement - continued
If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in the consolidated statement of income on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Dividend
The Group recognises a liability to make cash or non-cash distributions to shareholders of equity when the distribution is authorised and the distribution is no longer at the discretion of the Group. Final dividends are recognised as a liability at the time or at the period of their approval by the General Assembly. Interim dividends are recorded as and when approved by the Board of Directors. A corresponding amount is recognised directly in the consolidated statement of changes in equity.

Segment reporting
A reporting segment is a component of the Group that engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operation segments' operating results are reviewed regularly by the Group's chief operating decision makers about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

2.4 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Group applies, for the first time IFRS16 (Leases). As required by IAS 34, the nature and effect of these changes are disclosed below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group.

IFRS 16 Leases ("IFRS 16")
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 16 Leases ("IFRS 16") (continued)

The Group has adopted for the simplified retrospective application method that is permitted by IFRS 16 in accordance with paragraph C5(b) of IFRS 16, and accordingly the Group has not restated comparative information. Instead, the Group recognised the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings at the date of initial application (1 January 2019).

As a result, of the initial application of IFRS 16 to operating leases using the above-mentioned method, lease liability was measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at 1 January 2019. The right to use assets was measured at it's carrying amount as if the standard has been applied since the commencement date, but discounted using the Group's incremental borrowing rate as at 1 January 2019.

The impact of adopting IFRS 16 on the consolidated statement of financial position as at 1 January 2019 are as follows:

	SR
Increase in right use of assets	**303,739,635**
Increase in lease liabilities	**362,979,467**
Reduction in retained earnings	**(59,239,832)**

Right of Use (RoU) Assets / Lease Liabilities

On initial recognition, at inception of the contract, the Group shall assess whether the 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. Control is identified if most of the benefits are flowing to the Group and the Group can direct the usage of such assets.

Right of Use Assets

The Group applies the cost model, and measures right of use assets at cost:

a) less any accumulated depreciation and any accumulated impairment losses; and
b) adjusted for any re-measurement of the lease liability for lease modifications.

If there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to the transaction, etc., these need to be added to the RoU asset value.

Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor. After the commencement date, the Group measures the lease liability by:

a) Increasing the carrying amount to reflect incremental financing rate on the lease liability;
b) Reducing the carrying amount to reflect the lease payments made; and
c) Re-measuring the carrying amount to reflect any re-assessment or lease modification.

The lease payments are discounted using the incremental borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items relating to office equipment.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 NEW STANDARDS ISSUED BUT NOT EFFECTIVE

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

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

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3 SIGNIFICANT ASSUMPTIONS AND ESTIMATES

In preparing these consolidated financial statements, management has made estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating units ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Expected credit loss of trade receivable

The Group has applied the standard's simplified approach of impairment in accordance with IFRS 9 and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Employees' terminal benefits liabilities

The present value of the Employees' terminal benefits liabilities is determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed annually.

Property and equipment useful life and residual value

Any change in the estimated useful life or depreciation pattern will be accounted for prospectively. During the year there was no change in the productive ages.

4 OPERATING SEGMENTS

The Group has the following strategic divisions, which represents its reportable segments. These segments offer different services and are managed separately because they have different economic characteristics – such as trends in sales growth, rates of return and level of capital investment – and have different marketing strategies.

The following summary describes the operations of each reportable segment:

Hospitality	:	represents hotels owned by the Group and revenues generated through them whether these hotels are operated by the Group or by a third party.
Property management	:	represents management and operation of hotels and properties that are not owned by the Group.
Property rental	:	represents properties owned by the Group which are leased to others. These properties primarily comprises of residential compounds and commercial complexes.
Others	:	represents corporate office and other support services departments.

Following is a summary of certain financial information for the two years ended 31 December:

2019 ***SR***	*Hospitality*	*Property Management*	*Property Rental*	*Others*	*Elimination*	***Total***
Revenue from external customer	435,608,058	6,632,471	111,605,597	-	-	**553,846,126**
Inter-segment revenue	9,409,093	8,375,346	10,539,069	-	(28,323,508)	**-**
Cost of revenue	(393,260,920)	(5,079,669)	(36,328,647)	-	-	**(434,669,236)**
Gross profit	42,347,138	1,552,802	75,276,950	-	-	**119,176,890**
Depreciation of property and equipment and right of use assets	71,848,787	-	16,333,290	3,329,148	-	**91,511,225**
Property and equipment	917,880,564	-	1,484,706,717	89,894,891	-	**2,492,482,172**
Right of use assets	278,550,437	-	19,592,673	-	-	**298,143,110**
Capital work in progress	214,027,363	-	105,398,381	-	-	**319,425,744**
Total assets	1,918,433,211	-	1,519,498,787	89,894,891	-	**3,527,826,889**
Total liabilities	475,217,821	-	1,260,860,545	-	-	**1,736,078,366**

2018 *SR*	*Hospitality*	*Property Management*	*Property Rental*	*Others*	*Elimination*	*Total*
Revenue from external customer	352,800,574	5,389,534	95,872,309	-	-	454,062,417
Inter-segment revenue	1,731,846	20,277,930	6,436,378	-	(28,446,154)	-
Cost of revenue	(301,111,715)	(5,158,809)	(39,710,935)	-	-	(345,981,459)
Gross profit	51,688,859	230,725	56,161,374	-	-	108,080,958
Depreciation	49,532,959	-	13,855,235	4,024,695	-	67,412,889
Property and equipment	892,930,909	-	905,388,119	95,978,529	-	1,894,297,557
Capital work in progress	506,209,670	-	179,211,575	-	-	685,421,245
Total assets	1,703,745,900	-	1,124,518,092	95,978,529	-	2,924,242,521
Total liabilities	208,521,700	-	904,723,922	-	-	1,113,245,622

4 OPERATING SEGMENTS (continued)

Reconciliation of information on reportable segments to income before zakat of the Group for the two years ended 31 December:

	2019 *SR*	*2018* *SR*
Gross profit of operating segments	**119,176,890**	108,080,958
Un-allocated amount:		
Other income	**20,772,582**	5,501,221
Selling and marketing expenses	**(1,713,680)**	(1,056,191)
General and administration expenses	**(41,199,833)**	(37,493,432)
Additional charges for a legal liability	**-**	(7,353,987)
Finance income	**1,608,397**	1,420,543
Financial charges on lease liability	**(15,947,631)**	-
Financial charges	**(23,336,833)**	(6,620,108)
Share in net results of equity accounted investees	**(1,342,430)**	(1,083,275)
Total un-allocated amount	**(61,159,428)**	(46,685,229)
Income before zakat	**58,017,462**	61,395,729

5 CASH AND CASH EQUIVALENTS

	2019 *SR*	*2018* *SR*
Short term deposits (*)	**89,623,800**	113,300,004
Bank balances	**45,287,480**	25,926,151
Cash on hand	**769,299**	563,450
	135,680,579	139,789,605

(*) Short term deposits represent Murabaha deposits with commercial banks and the maturity average of those deposits ranges between 30 to 90 days.

6 TRADE RECEIVABLES

	2019 *SR*	*2018* *SR*
Trade receivables	**161,320,252**	130,343,530
Provision for expected credit loss	**(20,044,133)**	(26,290,230)
	141,276,119	104,053,300

Movement in provision for expected credit loss for the two years ended 31 December:

	2019 *SR*	*2018* *SR*
At the beginning of the year	**26,290,230**	17,251,813
Charge for the year (note 25)	**(206,251)**	1,684,780
Recovered during the year	**(2,461,639)**	(1,888,247)
Bad debts written off during the year	**(3,578,207)**	-
Impact of adopting IFRS 9 at 1 January 2018	**-**	9,241,884
At the end of the year	**20,044,133**	26,290,230

6 TRADE RECEIVABLES (continued)

Aging analysis of trade receivables

Following is the provision criteria used for expected credit loss for trade receivables as of 31 December:

	Total	*1-60 days*	*61-90 days*	*91-365 days*	*1-2 years*	*2-3 years*	*>3 years*
	SR	*SR*	*SR*	*SR*	*SR*	*SR*	*SR*
Provision for expected credit loss							
2019	**20,044,133**	**-**	**313,285**	**1,343,577**	**3,107,647**	**1,297,999**	**13,981,625**
2018	26,290,230	480,749	1,287,366	2,185,985	5,133,360	2,811,502	14,391,268
Trade receivables							
2019	**161,320,252**	**75,188,181**	**19,555,196**	**20,622,713**	**18,620,075**	**2,604,918**	**24,729,169**
2018	130,343,530	29,027,836	17,058,830	25,369,410	17,550,040	7,010,981	34,326,433

7 RELATED PARTY TRANSACTIONS AND BALANCES

During its ordinary course of business, the Group transacts with related parties mentioned below, these transactions are made in accordance with terms approved by management. The transactions represent services exchanged between the entities.

Details of transactions amounts and resulted balances are as follows:

a) Due from related parties

			Amount of transactions for the two years ended 31 December		***Balance***	
			2019	*2018*	***2019***	*2018*
Related Party	***Relation***	***Nature of transaction***	***SR***	*SR*	***SR***	*SR*
Al-Maather Compound	Affiliate	Management fees income	85,540	-	**1,319,543**	-
Um Al qura Hotel	Affiliate	Management fees income	777,917	712,824	**928,775**	508,673
AL Yasmin Compound	Affiliate	Management fees income	507,326	490,929	**1,047,797**	876,559
Makarim Al Bait Hotel	Affiliate	Management fees income	362,748	416,934	**532,125**	1,381,480
Makarem Al Ma'arifa Hospitality Company	Associate	Technical fees income	-	463,521	**-**	18,365,582
Others	Affiliates	Technical fees income	1,319,216	1,703,830	**1,166,669**	1,117,800
					4,994,909	22,250,094

7 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

b) Due to related parties

Related Party	*Relation*	*Nature of transaction*	*Amount of transactions for the two years ended 31 December* **2019 SR**	*2018 SR*	*Balance* **2019 SR**	*2018 SR*
Al Jazira and Dawudia Compounds	Affiliate	Management fees income	479,069	-	**18,460,369**	18,957,438
Al Madinah Hotels Company limited	Associate	Management fees income	-	-	**14,651,496**	14,651,496
Al Rawda Residence Compound	Affiliate	Management fees income	296,617	308,805	**2,636,782**	2,656,756
Makarem Mena Hotel	Affiliate	Management fees income	229,367	492,377	**1,169,043**	1,759,008
Al Andalus Residence Compound	Affiliate	Management fees income	217,147	695,995	**1,006,709**	775,912
Others	Affiliates	Management fees	287,261	532,506	**235,906**	644,731
					38,160,305	39,445,341

Transactions with key management personnel:

	Amount of transactions for the two year ended 31 December **2019 SR**	*2018 SR*
Salaries, bonuses and end of service of the Group's key management persons	**4,300,183**	6,065,138

Terms and conditions relating to related party balances

Outstanding balances with related parties at the year end are unsecured, interest free, settled in cash and due within 12 months of statement of consolidated financial position date. There have been no guarantees provided or received for any related party receivables or payables. For the two years ended 31 December 2019 and 2018, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each reporting period by examining the financial position of the related party and the market in which the related party operates.

8 PREPAYMENTS AND OTHER CURRENT ASSETS

	2019	2018
	SR	SR
Advance for rent (*)	**17,680,000**	-
Other receivables	**9,027,840**	4,398,209
Advances for real estate projects	**5,383,841**	5,383,841
Advances to suppliers	**5,301,984**	1,245,649
Staff advances	**4,474,657**	4,021,946
Prepaid insurance	**3,751,514**	3,793,302
Others	**5,519,010**	4,567,499
	51,138,846	23,410,446

(*) Advance for rent represent a payment to lease a hotel building in Makkah Al-Mukaramah for period a of three and a half years. The non-current portion amounted SAR 40.3 million have been classified under non-current assets

9 INVENTORIES

	2019	2018
	SR	SR
Linens and furnishings	**5,583,151**	5,402,450
Spare parts	**4,671,489**	3,415,408
Food and beverages	**4,278,953**	2,545,878
Accessories and silverware	**3,718,950**	3,780,442
Operation supplies	**2,403,355**	4,573,630
Kitchen tools and equipment	**2,010,744**	2,387,860
Stationery and prints	**392,903**	738,316
	23,059,545	22,843,984
Less: provision for slow moving inventories	**-**	(14,910)
	23,059,545	22,829,074

Movement in provision for slow moving inventories for the two years ended 31 December:

	2019	2018
	SR	SR
At the beginning of the year	**14,910**	11,909
Charge for the year (note 24)	**1,136,700**	1,172,378
Inventory written off during the year	**(1,151,610)**	(1,169,377)
At the end of the year	**-**	14,910

10 INVESTMENT IN EQUITY ACCOUNTED INVESTEES

Investment in equity accounted investees represent investments in the following companies which are limited liability companies. All companies below are registered in the Kingdom of Saudi Arabia. The Group's investments in these companies is accounted for using the equity method in the consolidated financial statements.

	Ownership			
	2019	*2018*	***2019***	*2018*
	%	*%*	***SR***	*SR*
Equity accounted investees				
Saudi Company for Heritage Hospitality	**25**	25	**10,166,775**	11,509,205
Makarem Al Maarefah Hospitality Company	**-**	50	**-**	9,539,705
Al Madinah Hotels Company Limited	**50**	50	**4,142,290**	4,142,290
			14,309,065	25,191,200

Movement in the investment in equity accounted investees for the two years ended 31 December:

	2019	*2018*
	SR	*SR*
At the beginning of the year	**25,191,200**	26,274,475
Share in net results	**(1,342,430)**	(1,083,275)
Disposal of investment in equity accounted investees (*)	**(9,539,705)**	-
At the end of the year	**14,309,065**	25,191,200

(*) During the year ended 31 December 2019, the Group sold its investment in Makarem Al Maarefah Hospitality Company, which resulted in a loss of SAR 489,185.

11 RIGHT OF USE ASSETS

The Group leases several assets including lands and a building. Information about assets for which the Group is a lessee is presented below:

	Lands	*Buildings*	*Total*
	SR	*SR*	*SR*
Cost:			
At the beginning of the period	51,342,270	252,397,365	303,739,635
Related to the acquisition of a subsidiary (note 1)	-	11,274,184	11,274,184
	51,342,270	263,671,549	315,013,819
Depreciation:			
Charged for the year	(1,290,192)	(15,580,517)	(16,870,709)
Net book values:			
As at 31 December 2019	**50,052,078**	**248,091,032**	**298,143,110**

There were no leases with residual value guarantees to which the Group is committed.

12 PROPERTY AND EQUIPMENT

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

Buildings	50-75 years	Motor vehicles	4 years
Building improvements	5-10 years	Devices and equipment	5 years
Furniture	10 years	Elevators and central air conditioning	40 years

	Lands *SR*	*Buildings* *SR*	*Building improvements* *SR*	*Furniture* *SR*	*Motor vehicles* *SR*	*Devices and equipment* *SR*	*Elevators and central air conditioning* *SR*	***Total*** ***SR***
Cost:								
At the beginning of the year	724,671,319	1,446,117,622	91,273,743	288,989,119	8,335,587	80,806,988	63,112,221	**2,703,306,599**
Related to the acquisition of a subsidiary (note 1)	13,751,200	34,094,612	-	2,293,891	246,005	1,723,610	-	**52,109,318**
Additions	-	-	2,899,730	593,348	246,533	15,576,762	4,969,666	**24,286,039**
Disposals	-	(398,483)	-	(487,530)	(1,536,236)	(24,794)	(669,771)	**(3,116,814)**
Transfer from capital work in progress (note 13)	-	460,591,741	26,862,172	54,181,409	-	22,400,173	39,879,622	**603,915,117**
At the end of the year	738,422,519	1,940,405,492	121,035,645	345,570,237	7,291,889	120,482,739	107,291,738	**3,380,500,259**
Depreciation:								
At the beginning of the year	-	459,362,398	75,549,430	203,661,472	7,954,318	32,448,425	30,032,999	**809,009,042**
Related to the acquisition of a subsidiary (note 1)	-	2,904,427	-	1,579,233	183,626	1,490,068	-	**6,157,354**
Charge for the year	-	32,981,543	6,336,769	18,775,747	181,502	13,829,428	3,458,605	**75,563,594**
Disposals	-	-	-	(487,503)	(1,536,236)	(18,429)	(669,735)	**(2,711,903)**
At the end of the year	-	495,248,368	81,886,199	223,528,949	6,783,210	47,749,492	32,821,869	**888,018,087**
Net book values:								
As at 31 December 2019	738,422,519	1,445,157,124	39,149,446	122,041,288	508,679	72,733,247	74,469,869	**2,492,482,172**

12 PROPERTY AND EQUIPMENT (continued)

	Lands *SR*	*Buildings* *SR*	*Leasehold improvements* *SR*	*Furniture* *SR*	*Motor vehicles* *SR*	*Devices and equipment* *SR*	*Elevators and central air conditioning* *SR*	*Total* *SR*
Cost:								
At the beginning of the year	724,671,319	1,391,192,997	88,567,543	287,493,017	8,223,587	67,417,879	62,029,956	2,629,596,298
Additions	-	10,400,000	2,706,200	1,527,761	112,000	7,580,735	275,438	22,602,134
Disposals	-	-	-	(400,200)	-	(1,289,112)	-	(1,689,312)
Transfer from capital work in progress (note 13)	-	44,524,625	-	368,541	-	7,097,486	806,827	52,797,479
At the end of the year	724,671,319	1,446,117,622	91,273,743	288,989,119	8,335,587	80,806,988	63,112,221	2,703,306,599
Depreciation:								
At the beginning of the year	-	432,347,862	62,722,017	189,825,815	7,889,585	24,421,137	26,079,049	743,285,465
Charge for the year	-	27,014,536	12,827,413	14,235,857	64,733	9,316,400	3,953,950	67,412,889
Disposals	-	-	-	(400,200)	-	(1,289,112)	-	(1,689,312)
At the end of the year	-	459,362,398	75,549,430	203,661,472	7,954,318	32,448,425	30,032,999	809,009,042
Net book values:								
As at 31 December 2018	724,671,319	986,755,224	15,724,313	85,327,647	381,269	48,358,563	33,079,222	1,894,297,557

The depreciation charge has been allocated in the consolidated statement of income for the two years ended 31 December as follows:

	2019 ***SR***	*2018* *SR*
Cost of revenue (note 24)	**71,575,059**	63,388,194
General and administration expenses (note 25)	**3,988,535**	4,024,695
	75,563,594	67,412,889

13 CAPITAL WORK IN PROGRESS

The projects under construction mainly represent the cost of new hotels and the refurbishment of existing hotels in addition to other projects.

Movement in capital work in progress for the two years ended 31 December:

	2019	*2018*
	SR	*SR*
At the beginning of the year	**685,421,245**	383,555,729
Additions during the year	**237,919,616**	354,662,995
Transfers to property and equipment (note 12) (*)	**(603,915,117)**	(52,797,479)
At the end of the year	**319,425,744**	685,421,245

(*) Transfers into property and equipment represent the cost of construction of Marriott Diplomatic Quarter Hotel building, and the renovation of the Marriott Airport Hotel building, and the fifth stage of the Darraq residential complex.

Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended 31 December 2019 was SR 12.2 million (year ended 31 December 2018: SR 14.3 million). The rate used to determine the amount of borrowing costs eligible for capalisation is the interest rate of the weighted average borrowings.

14 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	2019	*2018*
	SR	*SR*
Revenue received in advance	**70,187,209**	57,523,713
Payable retentions	**27,075,913**	30,583,463
Payable to contractors	**20,139,881**	35,497,113
Accrued staff benefits	**20,038,664**	22,807,868
Accrued services expenses	**7,505,245**	3,005,953
Accrued management fees	**1,598,987**	910,533
Accrued marketing expenses	**1,529,998**	286,715
Accrued rentals (notes 11 and 16)	**-**	26,023,727
Others	**16,936,282**	13,563,324
	165,012,179	190,202,409

15 TERM LOANS

The Group has secured term loans in the form of Murabaha financing with a total value of SR 973.2 million (2018: SR 748.1 million) which accrue Murabaha commission at market prevailing rates. These financing are secured by promissory notes and assignment of proceeds from Darraq project rentals.

The management assessed that the fair value of term loans approximate their carrying amounts.

16 LEASE LIABILITIES

The minimum lease payments for the years subsequent to the date of the consolidated statement of financial position are as follows:

	2019	*2018*
	SR	*SR*
Maturity analysis - contractual undiscounted cash flows		
Within one year	**32,611,952**	-
After one year but not more than five years	**106,310,585**	-
More than five years	**485,641,756**	-
Total undiscounted lease liabilities	**624,564,293**	-

The net present value of the net lease payments is as follows:

	2019	*2018*
	SR	*SR*
Lease liabilities included in the consolidated statement of financial position		
Current portion of lease liabilities	**21,347,688**	-
Non-current portion of lease liabilities	**359,948,110**	-
	381,295,798	-

17 ZAKAT

The Company and its subsidiaries file their Zakat returns individually based on their financial statements. Therefore, Zakat base is identified and calculated for the Company and its subsidiaries individually, and total estimated Zakat is presented in the consolidated statement of income for the Group.

The Group has finalised its Zakat status with the General Authority of Zakat and Tax ("the GAZT") for all years up to and including 31 December 2009, the Group has further filed its Zakat returns for all years up to 2018 and paid the Zakat payable and obtained the relevant zakat certificate. However, the Group is still waiting to get the final assessments from the GAZT.

Movement in provision for zakat for the two years ended 31 December:

	2019	*2018*
	SR	*SR*
At the beginning of the year	**15,627,777**	15,117,862
Related to the acquisition of a subsidiary (note 1)	**486,962**	-
Provided during the year	**5,250,451**	5,140,558
Refund during the year	**(608,239)**	-
Payments made during the year	**(7,587,475)**	(4,630,643)
At the end of the year	**13,169,476**	15,627,777

18 EMPLOYEES' TERMINAL BENEFITS LIABILITIES

General description

General description of the type of employees' terminal benefits liabilities plan and accounting policy for recognising actuarial gains and losses is disclosed in note 2.3 to the consolidated financial statements.

Principal actuarial assumptions

	2019	*2018*
Salary increase rate	**2.9%**	4.4%
Discount rate	**2.9%**	4.3%
Number of employees covered under terminal benefits plan	**1,468**	1,371

The actuarial valuation was conducted using Projected Unit Credit method.

Employee benefit expense for the two years ended 31 December:

	2019 ***SR***	*2018* *SR*
Current service cost	**9,639,070**	6,202,516
Interest cost on employees' terminal benefit liabilities	**738,700**	1,463,899
Total benefit expense	**10,377,770**	7,666,415

Movement of present value of employees' terminal benefits liabilities for the two years ended 31 December:

	2019 ***SR***	*2018* *SR*
Opening present value of employees' terminal benefits liabilities	**56,480,888**	54,182,936
Total employees' terminal benefit expense	**10,377,770**	7,666,415
Employees' terminal benefits paid	**(9,097,897)**	(11,616,445)
Actuarial loss on employees' terminal benefit liabilities	**1,803,821**	6,247,982
Closing present value of employees' terminal benefits liabilities	**59,564,582**	56,480,888

Employees' terminal benefits liabilities sensitivity analysis

A quantitative sensitivity analysis for significant assumption on the employees' terminal benefits liabilities as at 31 December is shown below:

Assumptions	*Salary rate*		*Discount rate*	
Sensitivity level	*1% increase* *SR*	*1% decrease* *SR*	*1% increase* *SR*	*1% decrease* *SR*
2019	**63,712,350**	**58,633,177**	**58,739,517**	**63,633,196**
2018	58,840,213	54,265,395	54,360,180	58,760,094

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

19 SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company consists of 100 million shares of SR 10 each (2018: 100 million shares of SR 10 each).

20 STATUTORY RESERVE

In accordance with the Company's bylaws, the Company is required to transfer 10% of its annual net income to a statutory reserve until the reserve equals to 30% of the paid share capital. Statutory reserve balance reached 50% of the share capital due to transfers in the prior years and the Company decided to discontinue such transfers. This reserve is not available for distribution.

21 CONTRACTUAL RESERVE

In accordance with the Company's By-law, the Company allocates 5% of its annual net income to a contractual reserve. Due to transfers in prior years, the Company has decided to discontinue such transfer.

22 DIVIDENDS DECLARATION AND APPROVAL

On 14 March 2019, the Board of Directors approved interim cash dividends of SR 25 million (SR 0.25 per share) for the second half of the year 2018. On 8 August 2018, the Board of Directors approved interim cash dividends of SR 25 million (SR 0.25 per share) for the first half of the year 2018 which was approved by the General Assembly at its meeting on 12 May 2019.

On 26 February 2018, the Board of Directors approved interim cash dividends of SR 30 million (SR 0.3 per share) for the second half of the year 2017. This was approved by General Assembly in its meeting held on 29 March 2018.

Current liabilities include the balance of dividends payable amounting to SR 47.2 million (2018: Saudi Riyals 47.1 million), which represents amounts due to shareholders for dividends in previous years that were not claimed by them as at the date of the consolidated statement of financial position.

SUBSEQUENT EVENTS

On 18 February 2020, The Board of Directors approved the distribution of cash dividend of SR 50 million (SR 0.5 per share) for the year ended 31 December 2019 which will be subject to the of the next General Assembly approval in its upcoming meeting.

23 REVENUE FROM CONTRACT WITH CUSTOMERS

The following is the disaggregation of the Group's revenue from contracts with customers for the two years ended 31 December:

2019	*Hospitality*	*Property Management*	*Total*
	SR	*SR*	*SR*
Type of goods or service			
Rooms	282,159,243	-	**282,159,243**
Food and beverage	130,093,527	-	**130,093,527**
Other hotel revenues	23,355,288	-	**23,355,288**
Management fee	-	6,632,471	**6,632,471**
Total revenue from contracts with customers	**435,608,058**	**6,632,471**	**442,240,529**
Timing of revenue recognition			
Services transferred over time	305,514,531	6,632,471	**312,147,002**
Goods transferred at a point in time	130,093,527	-	**130,093,527**
Total revenue from contracts with customers	**435,608,058**	**6,632,471**	**442,240,529**

23 REVENUE FROM CONTRACT WITH CUSTOMERS (continued)

2018	*Hospitality* *SR*	*Property Management* *SR*	*Total* *SR*
Type of goods or service			
Rooms	222,948,733	-	222,948,733
Food and beverage	115,655,268	-	115,655,268
Other hotel revenues	14,196,573	-	14,196,573
Management fee	-	5,389,534	5,389,534
Total revenue from contracts with customers	352,800,574	5,389,534	358,190,108
Timing of revenue recognition			/
Services transferred over time	237,145,306	5,389,534	242,534,840
Goods transferred at a point in time	115,655,268	-	115,655,268
Total revenue from contracts with customers	352,800,574	5,389,534	358,190,108

24 COST OF REVENUE

	2019 ***SR***	*2018* *SR*
Salaries and other related expenses	**179,978,231**	146,043,129
Depreciation of property and equipments and right of use assets (notes 11 and 12)	**88,445,768**	63,388,194
Food and beverage	**38,836,081**	32,842,131
Operation requirements	**35,574,495**	23,343,443
Utilities	**25,332,276**	20,859,766
Advertising and promotion activities	**19,803,850**	12,479,810
Service and operation fees	**12,086,484**	10,072,937
Repair and maintenance	**11,955,319**	8,269,172
Preopening expense	**10,749,264**	-
Commission for travelling agency and credit card	**6,111,655**	4,742,482
Provision for slow moving inventories (note 9)	**1,136,700**	1,172,378
Security	**570,306**	1,154,483
Rentals (notes 11 and 16)	**-**	17,932,607
Other	**4,088,807**	3,680,927
	434,669,236	345,981,459

25 GENERAL AND ADMINISTRATION EXPENSES

	2019	*2018*
	SR	*SR*
Salaries and other related expenses	**24,287,981**	19,297,325
Depreciation (note 12)	**3,988,535**	4,024,695
Board of director remuneration	**3,179,000**	2,350,000
Professional fee	**2,879,086**	2,470,313
Subscription	**2,299,829**	2,818,892
Hospitality	**1,743,581**	1,901,930
Training	**652,525**	1,039,238
Electricity, water, and telecommunication	**600,372**	489,959
Recruitment expenses	**506,545**	424,536
Insurance	**420,605**	501,559
Maintenance	**408,328**	237,122
Entertainment expenses	**185,200**	120,000
Provision for expected credit loss (note 6)	**(206,251)**	1,684,780
Other	**254,497**	133,083
	41,199,833	37,493,432

26 OTHER INCOME, NET

	2019	*2018*
	SR	*SR*
Recovery of bad debts previously written off	**8,645,222**	1,721,791
Income from assignment of a contract	**5,140,000**	-
Settlement related to old liabilities	**4,100,000**	-
Others, net	**2,887,360**	3,779,430
	20,772,582	5,501,221

27 COMMITMENTS AND CONTINGENCIES

Capital commitments

During the year ended 31 December 2019, the Group has entered into capital commitments of SR 98.2 million (2018: SR 129 million) related to its capital work in progress.

Contingencies

As at 31 December 2019, the Group had issued letters of guarantee amounting to SR 30.2 million (2018: SR 38.9 million). These guarantees are without cash margin.

Legal claim contingency

The Group is involved in litigation matters in the ordinary course of business, which are being defended. While the ultimate results of these matters cannot be determined with certainty, based on the advice of the legal counsel.

Further, the Group was involved in legal proceedings against a lessor ("the lessor") due to increasing rental charges for a property that was leased by the Group for the period from 2009 to 2014 ("the period"). On 28 November 2018, the court issued its final non-appealable ruling and ordered the Group to pay an amount of SR 14.3 million for leasing the property during the above mentioned period. The Group made a provision of SR 6.9 million in previous years for this legal case contingencies. Pursuant the court final ruling issued during the current year, the Group charged an amount of SR 7.4 million to the consolidated statement of income as an additional charge for this legal case.

27 COMMITMENTS AND CONTINGENCIES (continued)

Operating leases commitment

Group as lessee
The commitments of the lease contracts in which the group is a lessee are shown in note 16.

Group as lessor
The Group has entered into commercial leases. These non-cancellable leases have remaining terms of between 1 and 5 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Following is the future minimum rentals receivable under non-cancellable operating leases as of 31 December:

	2019	*2018*
	SR	*SR*
Within one year	**25,799,851**	24,408,710
More than one year but less than five years	**64,538,560**	70,095,446
More than five years	**86,245,825**	94,000,000
	176,584,236	188,504,156

28 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the year are calculated by dividing net income for the year by the weighted average number of issued and outstanding shares of 100 million during the two years ended 31 December 2019 and 2018.

29 CAPITAL MANAGEMENT

The Group’s policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group monitors capital using a ratio of ‘net debt’ to ‘equity’. Net debt is calculated as term loans, trade payables and due to related parties (as shown in the consolidated statement of financial position) less cash and cash equivalents.

Equity comprises all components of equity.

The Group’s net debt to equity ratio at 31 December was as follows:

	2019	*2018*
	SR	*SR*
Term loans	**973,268,092**	748,016,646
Trade payable	**58,377,275**	16,398,327
Due to related parties	**38,160,305**	39,445,341
	1,069,805,672	803,860,314
Less: cash and cash equivalents	**(135,680,579)**	(139,789,605)
Net debt	**934,125,093**	664,070,709
Total equity	**1,791,748,523**	1,810,996,899
Net debt to equity ratio	**52%**	37%

30 FINANCIAL INSTRUMENTS

Financial instruments risk management objectives and policies

The Group is subjected to various financial risks due to its activities including: Market risk (including currency risk, fair value and cash flows of interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Senior management is responsible for risk management. Financial instruments carried on the consolidated statement of financial position include bank balances, short term deposits, investments, trade receivable, due from/to related parties, term loans, and trade payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. Financial asset and liability is offset and net amounts reported in the consolidated financial statements, when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and liability simultaneously.

Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, profit rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals and US Dollars. The Saudi Riyal is pegged to the US Dollar.

The management closely and continuously monitors the exchange rate fluctuations.

Interest rate risk

Fair value and cash flow interest rate risks are the exposures to various risk associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group's exposure to interest rate risk primarily to the Group's borrowings. The Group manage its financing through optimising available cash and minimising borrowings.

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its trade receivables, cash and cash equivalent and due from related parties as of 31 December:

	2019	*2018*
	SR	*SR*
Bank balances and short term deposits	**135,680,579**	139,789,605
Trade receivables	**141,276,119**	104,053,300
Due from related parties	**4,994,909**	22,250,094
	281,951,607	266,092,999

The carrying amount of financial assets represents the maximum credit exposure.

Trade receivables

Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer assessed based on an extensive credit rating scorecard and individual credit limits defined in accordance with this assessment.

The Group measures the trade receivable net of provision for expected credit loss. For trade receivables, the Group applies a simplified approach in calculating expected credit losses (ECLs).

30 FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

Trade receivables (continued)

Therefore, the Group does not track changes in credit risk, but instead recognises 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 (see note 6).

As at 31 December 2019, more than 22% (2018: 36%) of the Group's customers are corporate, and an expected credit loss has been recognised against these customers amounted to SR 3.3 million (2018: SR 3.4 million).

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or corporate, their geographic location, industry, trade history with the Group and existence of previous financial difficulties.

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 Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments as at 31 December:

2019	*3 to 12 months SR*	*1 to 5 years SR*	***Total SR***
Term loans	**131,912,230**	**841,355,862**	**973,268,092**
Trade payables	**58,377,275**	**-**	**58,377,275**
Due to related parties	**38,160,305**	**-**	**38,160,305**
	228,449,810	**841,355,862**	**1,069,805,672**

2018	*3 to 12 months SR*	*1 to 5 years SR*	*Total SR*
Term loans	92,491,060	655,525,586	748,016,646
Trade payables	16,398,327	-	16,398,327
Due to related parties	39,445,341	-	39,445,341
	148,334,728	655,525,586	803,860,314

31 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial instruments comprise of financial assets and financial liabilities. The Group's financial assets consist of bank balances, short term deposits, investments, trade receivables and due from related parties. Its financial liabilities consist of term loans, trade payables and due to related parties.

The management assessed that fair value of bank balances and short term deposits, investments, trade receivables, amounts due from related parties, term loans, trade payables and amounts due to related parties approximate their carrying amounts largely due to the short-term maturities of these instruments.

Financial Assets

	2019	*2018*
	SR	*SR*
Financial assets classified as available for sale		
Investment at FVOCI	**7,000,000**	7,000,000
Financial assets carried at amortised cost		
Trade receivables	**141,276,119**	104,053,300
Due from related parties	**4,994,909**	22,250,094
Total financial assets carried at amortised cost	**146,271,028**	126,303,394
Total financial assets	**153,271,028**	133,303,394
Total current financial assets	**146,271,028**	126,303,394
Total non-current financial assets	**7,000,000**	7,000,000
	153,271,028	133,303,394

Financial liabilities

	2019	*2018*
	SR	*SR*
Financial liabilities carried at amortised cost		
Trade payables	**58,377,275**	16,398,327
Term loans	**973,268,092**	748,016,646
Due to related parties	**38,160,305**	39,445,341
Total financial liabilities carried at amortised cost	**1,069,805,672**	803,860,314
Total current financial liabilities	**228,449,810**	148,334,728
Total non-current financial liabilities	**841,355,862**	655,525,586
	1,069,805,672	803,860,314

The carrying amounts of the financial assets and liabilities reasonably approximate to their fair values.

32 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors on 24 Jumad Thani 1441H (corresponding to 18 February 2020)