ALKHABEER CAPITAL
(A SAUDI CLOSED JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 December 2019

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Alkhabeer Capital (A Saudi Closed Joint Stock Company)

Opinion

We have audited the financial statements of Alkhabeer Capital (A Saudi Closed Joint Stock Company), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its 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 endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the '*Auditor's Responsibilities for the Audit of the Financial Statements*' section of our report. We are independent of the Group in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the 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.

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

Management is responsible for the preparation and fair presentation of the 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 SOCPA, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Alkhabeer Capital (A Saudi Closed Joint Stock Company)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)
As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Company'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 Company'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 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company 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.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

19 Sha'ban 1441H
12 April 2020

Jeddah

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

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Notes	***31 December 2019*** ***SR '000***	*31 December 2018* *SR '000*
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**112,174**	22,390
Current portion of Murabaha placements	5	**46,963**	120,500
Accounts receivable, prepayments and other receivables	6	**39,972**	80,235
Due from related parties	7	**126,383**	88,170
Financial assets at fair value through profit or loss	8	**1,190,822**	1,380,362
Investment property	27	**147,538**	147,538
TOTAL CURRENT ASSETS		**1,663,852**	1,839,195
NON-CURRENT ASSETS			
Murabaha placements	5	**16,500**	41,200
Right of use assets	9	**6,988**	-
Property and equipment	10	**48,540**	47,160
TOTAL NON-CURRENT ASSETS		**72,028**	88,360
TOTAL ASSETS		**1,735,880**	1,927,555
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payables, accrued and other liabilities	11	**140,399**	222,276
Current portion of Murabaha contracts	12	**382,282**	247,050
Current portion of sharia compliant financing	13	**51,500**	126,500
Current portion of lease liability	9	**591**	-
TOTAL CURRENT LIABILITIES		**574,772**	595,826
NON-CURRENT LIABILITIES			
Murabaha contracts	12	**248,400**	240,900
Sharia compliant financing	13	**43,018**	93,898
Employees' terminal benefits	14	**14,199**	11,504
Long term portion of lease liability	9	**6,609**	-
TOTAL NON-CURRENT LIABILITIES		**312,226**	346,302
TOTAL LIABILITIES		**886,998**	942,128
SHAREHOLDERS' EQUITY			
Share capital	17	**894,523**	813,203
Statutory reserve	18	**35,574**	35,574
(Accumulated loss) / retained earnings		**(81,299)**	136,076
Actuarial gain, net	14	**84**	574
TOTAL SHAREHOLDERS' EQUITY		**848,882**	985,427
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,735,880**	1,927,555

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

STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	***2019 SR '000***	*2018 SR '000*
INCOME			
(Loss) / gain from investments at fair value through profit or loss, net	8	**(50,752)**	102,686
Fee income	19	**46,021**	64,515
Dividend income		**23,169**	19,789
Income from Murabaha placements		**6,637**	1,223
TOTAL OPERATING INCOME		**25,075**	188,213
OPERATING EXPENSES			
Selling and marketing	20	**(6,400)**	(9,177)
General and administrative	21	**(95,826)**	(89,637)
TOTAL OPERATING EXPENSES		**(102,226)**	(98,814)
NET OPERATING (LOSS) / INCOME		**(77,151)**	89,399
Fair value loss on option	11	**(5,535)**	-
Murabaha and financing expenses		**(42,182)**	(33,892)
Finance cost on leased liabilities	9	**(336)**	-
Other income		**1,350**	1,353
(LOSS) / PROFIT FOR THE YEAR BEFORE ZAKAT AND TAX		**(123,854)**	56,860
Zakat and income tax	3 & 15	**(3)**	(1,595)
(LOSS) / PROFIT AFTER ZAKAT AND TAX		**(123,857)**	55,265
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to the profit or loss			
(Loss)/ gain on re-measurement of employees' terminal benefits	14	**(490)**	574
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(124,347)**	55,839
BASIC AND DILUTED EARNING PER SHARE			
Weighted number of shares (in thousands)	17	**86,741**	81,320
Attributable to net operating income (in SR)	29	**(0.89)**	1.10
Attributable to profit after zakat and income tax (in SR)	29	**(1.43)**	0.68

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2019

	Share capital *SR '000*	***Statutory reserve*** *SR '000*	***Retained earnings*** *SR '000*	***Actuarial valuation reserve*** *SR '000*	***Total*** ***SR '000***
Balance at 1 January 2018	813,203	30,047	98,536	-	**941,786**
Profit before zakat and tax	-	-	56,860	-	**56,860**
Zakat and income tax	-	-	(1,595)		**(1,595)**
Other comprehensive income (note 14)	-	-	-	574	**574**
Total comprehensive income for the year	-	-	55,265	574	**55,839**
Transfer to statutory reserve (note 18)	-	5,527	(5,527)	-	**-**
Dividend (note 16)	-	-	(12,198)	-	**(12,198)**
Balance at 31 December 2018	813,203	35,574	136,076	574	985,427
Loss before zakat and tax	**-**	**-**	**(123,854)**	**-**	**(123,854)**
Zakat and income tax	**-**	**-**	**(3)**	**-**	**(3)**
Other comprehensive loss (note 14)	**-**	**-**	**-**	**(490)**	**(490)**
Total comprehensive loss for the year	**-**	**-**	**(123,857)**	**(490)**	**(124,347)**
Increase in share capital (note 17)	**81,320**	**-**	**(81,320)**	**-**	**-**
Dividend (note 16)	**-**	**-**	**(12,198)**	**-**	**(12,198)**
Balance at 31 December 2019	**894,523**	**35,574**	**(81,299)**	**84**	**848,882**

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

STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

	Notes	**2019** SR '000	2018 SR '000
OPERATING ACTIVITIES			
(Loss) / profit for the year before zakat and tax		**(123,854)**	56,860
Adjustments for:			
(Loss) / gain from investments at fair value through profit or loss, net	8	**50,752**	(102,686)
Fair value loss on option	11	**5,535**	-
Depreciation	10	**3,527**	3,459
Depreciation of right of use assets	9	**776**	-
Provision for employees' terminal benefits	14	**3,121**	2,476
Gain on disposal of property and equipment		**-**	(2)
Finance cost on leased liabilities	9	**336**	-
Operating loss before changes in operating assets and liabilities		**(59,807)**	(39,893)
Changes in operating assets and liabilities			
Accounts receivable, prepayments and other receivables, net	6	**(12,202)**	31,090
Due from related parties	7	**(38,213)**	(42,684)
Accounts payable, accrued and other liabilities	11	**(115,860)**	16,156
Purchase of financial assets at FVTPL	8	**(73,292)**	(147,880)
Proceeds from disposal of financial assets at FVTPL	8	**246,990**	124,058
Cash used in operations		**(52,384)**	(59,153)
Employees' terminal benefits paid	14	**(916)**	(1,031)
Finance cost paid		**(336)**	-
Net cash used in operating activities		**(53,636)**	(60,184)
INVESTING ACTIVITIES			
Purchase of property and equipment	10	**(4,907)**	(3,788)
Proceeds from disposal of property and equipment		**-**	4
Net movement in Murabaha placements	5	**144,237**	15,839
Net cash from investing activities		**139,330**	12,055
FINANCING ACTIVITIES			
Murabaha contracts	12	**142,732**	59,713
Sharia compliant financing	13	**(125,880)**	(10,905)
Dividends paid	16	**(12,198)**	(12,198)
Payment of principal portion of lease liabilities	9	**(564)**	-
Net cash from financing activities		**4,090**	36,610
Net increase / (decrease) in cash and cash equivalents		**89,784**	(11,519)
Cash and cash equivalents at the beginning of the year		**22,390**	33,909
Cash and cash equivalents at the end of the year		**112,174**	22,390

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

STATEMENT OF CASH FLOWS (continued)
For the year ended 31 December 2019

NON CASH SUPPLEMENTARY INFORMATION

Investment purchased against opening receivable	6	**52,465**	**-**
Investment sold against payable	8	**-**	39,000
Payable against investment purchased during the year	11	**28,445**	109,986
Investment property transferred	27	**-**	147,538
Right of use asset and leased liabilities	9	**7,764**	-
Current portion of lease liability	9	**591**	-
Long term portion of lease liability	9	**6,609**	
Fund equity reduced by placement of Murabaha	5	**46,000**	-

1. ORGANIZATION AND ACTIVITIES

AlKhabeer Capital ("AKC", or "the Company") is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030177445 dated 14 Rabi Awal 1429H (corresponding to 22 March 2008). The Commercial Registration of the Company was amended on 14 Shawal 1430H (corresponding to 5 October 2009) by virtue of which the name of the Company was amended from AlKhabeer Merchant Finance Corporation to AlKhabeer Capital.

The Company is engaged in the following activities in accordance with the Capital Market Authority's Resolution no. H/T/919 dated 3 Rabi a' Thani 1429H (corresponding to 9 April 2008) and License No. 07074-37:

a) Arranging
b) Managing
c) Advising
d) Custody
e) Underwriting; and
f) Dealing as principal

The Company's registered office is located at the following address:

AlKhabeer Capital
Al-Madina Road, P.O. Box 128289
Jeddah
Saudi Arabia

As at 31 December 2019, the Company operates through a branch with commercial registration 1010439273 registered in Riyadh (31 December 2018: same). The accompanying financial statements include the assets, liabilities and results of this branch.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

The Company had investment in Alkhabeer Capital DIFC ('the Subsidiary') which is 100% owned by the Company. On 28 October 2019, the shareholders of the Company resolved to dissolve the Subsidiary and legal formalities in this regard completed on 21 November 2019. As the Company had only one subsidiary, effective from 21 November 2019 the Parent Company discontinued issuing consolidated financial statement. These financial statements are of the Company and the subsidiary till the date of its dissolution. The financial information of the Subsidiary for the current and prior year are disclosed in note 28.

AlKhabeer Capital has multiple unrelated investors and holds multiple investments (in various funds managed by the Company). Ownership interests in the Company are in the form of ordinary shares. The Company has been deemed to meet the definition of an investment entity as per IFRS 10 "Consolidated Financial Statements" as the following conditions exist;

a) The Company has obtained funds for purpose of providing investors with professional investment management services.
b) The Company's business purpose is investing for capital appreciation and investment income.
c) The investments are measured and evaluated on a fair value basis.

Since the Company meets the definition of an investment entity as per the guidance given in IFRS 10 "Consolidated Financial Statements" (note 3), it is exempted from consolidating the underlying funds and from the application of IFRS 3 "Business Combinations" when it obtains control of another entity. Such unconsolidated funds are instead measured by the Company as financial asset at fair value through profit or loss in accordance with IFRS 9 "Financial Instruments".

2. BASIS OF PREPARATION (continued)

2.2 Basis of measurement

These financial statements are prepared under the historical cost convention, except for financial assets measured at fair value through profit or loss.

2.3 Functional and presentation currency

These financial statements have been presented in Saudi Riyals (SR) which is the Company's functional and presentation currency of the Company. Financial information, presented in Saudi Riyals, has been rounded off to the nearest thousand, unless otherwise stated.

2.4 Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that may require a material adjustment to the carrying amount of assets or liabilities in future periods. Actual results may differ from these estimates.

Judgements
In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Going concern
The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. Therefore, these financial statements have been prepared on a going concern basis.

Deferred taxes
Deferred tax assets / liabilities are recognised for temporary differences to the extent that it is probable that taxable profit will be available against which these can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position 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 Company based its assumptions and estimates on parameters available when these 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 Company. Such changes are reflected in the assumptions when they occur.

Fair value estimation of financial assets at fair value through profit or loss
Management uses a standard and consistent valuation technique to ascertain the fair values. In the majority of cases, management uses the reported net asset values (NAV) of the investee funds as their fair valuation. If necessary, adjustments to the NAV are made to obtain the best estimate of fair value. In case NAV is not readily available, the valuation is based on management's best estimate considering recent purchase or sale transactions, available financial information or other suitable indicators of the fair value.

Impairment charge for expected credit losses of financial asses
The Company uses a provision matrix to calculate ECLs for financial assets. The provision matrix is initially based on the Company's historical observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECLs on the Company's financial assets is disclosed in note 22.

2. BASIS OF PREPARATION (continued)

2.4 Significant accounting judgments, estimates and assumptions

Estimates and assumptions (continued)

Impairment of non-financial assets
The carrying amounts of the non-financial assets are reviewed at the end of each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount. 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 values using the pre-zakat discount rate that reflects the current market assessments of time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

Useful lives of property and equipment
The Company's management determines the estimated useful lives of its property and equipment for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges would be adjusted where the management believes the useful lives differ from previous estimates.

Actuarial valuation of employees' end of service benefits
The cost of the employees' end of service benefit plan under defined unfunded benefit plan is determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, and mortality rates. Due to the complexity of the valuation and its long-term nature, a defined unfunded benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed on an annual basis or more frequently, if required.

Provisions
Provision is recognised if, as a result of a past event, the Company 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.

Investment entity
An investment entity is an entity that: (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Company meets the definition and typical characteristics of an "investment entity". An investment entity is required to account for its investments in subsidiaries and associates at fair value through statement of profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the Company's financial statements for the year ended 31 December 2019, except for:

3.1 Impact of Changes in Accounting Policies Due to Adoption of New Standards

Effective 1 January 2019 the Company has adopted IFRS 16 "Leases" for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below:

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Impact of Changes In Accounting Policies Due To Adoption of New Standards (continued)

IFRS 16 Leases (continued)

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

The Company adopted IFRS 16 using the simplified approach of adoption with the date of initial application of 1 January 2019. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

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

The Company has lease contracts for one branch and before adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased branch was not capitalised and the lease payments were recognised as rent expense in statement of comprehensive income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under "Prepayments and other receivables" and "Trade, accrued and other liabilities", respectively.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Company.

Leases previously accounted for as operating leases
The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Leases – Estimating the incremental borrowing rate
The Company cannot readily determine the profit rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of profit that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market profit rates) when available and is required to make certain entity-specific estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Impact of Changes In Accounting Policies Due To Adoption of New Standards (continued)

IFRS 16 Leases (continued)

Amounts recognised on 1 January 2019 in the statements of financial position and statement of comprehensive income:

	Statement of financial position	
	Right-of-use asset	***Lease liabilities***
As at 1 January 2019 (note 9)	**7,764**	**7,764**
Depreciation of right of use assets	**(776)**	**-**
Finance cost on leased liabilities	**-**	**336**
Payments	**-**	**(900)**
As at 31 December 2019	**6,988**	**7,200**

The effect of adoption IFRS 16 as at 1 January 2019 (increase/ (decrease)) is as follows:

	1 January 2019 SR ('000) Unaudited
Assets	
Right of use assets	7,764
Liabilities	
Lease liabilities in respect of right of use assets	7,764

3.2 Foreign currencies

Transactions in foreign currencies are initially recorded by the Company in its functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised as profit or loss with the exception of monetary items that are designated as part of the hedge of the Company's net investment in a foreign operation. These are recognised as other comprehensive income (OCI) until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss in the statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Current versus non-current classification

Assets
The Company presents assets and liabilities in the statement of financial position based on current/noncurrent classification. An asset is current when it is:

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

All other assets are classified as non-current.

Liabilities
A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

3.4 Fair value measurement

The Company measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

The Company 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 financial statements are categorised within the fair value hierarchy, 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
- 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 financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Impairment of financial and non-financial assets

Financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that 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 profit or principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as economic conditions that correlate with defaults.

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing SOCPA GAAP's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Company recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. For accounts receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company 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

The Company considers a financial asset in default when payments are not made as per contractual terms which may vary from obligor to obligor. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The fair value less costs of disposal is determined by taking into account recent market transactions. If no such transactions can be identified, an appropriate valuation model is used. The value in use is assessed by discounting the estimated future cash flows 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. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in the statement of profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs, and then to reduce the carrying amounts of the other assets in the CGU (group of units) on a pro rata basis.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

3.6 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise balances with banks, cash on hand, and short term Murabaha placements, with original maturities of 90 days or less three months or less, which are subject to an insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of bank balances, cash and short-term Murabaha placements as defined above.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 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.

i) Financial assets

Initial recognition and measurement
The Company's financial assets consist of cash and bank balances, Murabaha placements, accounts receivable, investments at fair value through profit or loss due from related parties and financial liabilities consist of Murabaha contracts, Sharia compliant financing and accounts and other payables. Financial assets at initial recognition, are measured at their fair values. Subsequent measurement of a financial asset is dependent on its classification and is either at amortised cost or fair value through other comprehensive income (OCI) or 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 Company's business model for managing them. With the exception of accounts receivables that do not contain a significant financing component, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Accounts receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15 Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and profit (SPPP)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in following categories:

a) Financial assets at amortised cost
b) Financial assets at fair value through OCI (FVOCI)
c) Financial assets at fair value through profit or loss (FVTPL)

a) Financial assets at amortised cost (debt instruments)
The Company measures financial assets at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective profit rate (EPR) method and are subject to impairment. Gains and losses are recognised in statement of profit or loss when the asset is derecognised, modified or impaired. The Company's financial assets at amortised cost includes trade and other receivables.

b) Financial assets at fair value through OCI

Debt instruments
The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

For debt instruments at fair value through OCI, profit income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Financial instruments (continued)

i) Financial assets (continued)

b) Financial assets at fair value through OCI (continued)

Equity instruments
Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI 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 profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

c) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including consolidated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and profit are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. Financial assets classified as fair value through profit or loss comprise investments in a short term discretionary portfolio and funds managed by the Company, are acquired principally for the purpose of selling or repurchasing in the short term.

For securities that are traded in organised financial markets, the fair value is determined by reference to exchange quoted market bid prices at the close of the business on the reporting date.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the underlying Net Asset Value (NAV) of the funds which is reflective of the fair value of these securities.

Business model assessment

The Company makes an assessment of the objective of a business model under which an asset is held, because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the fund and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the fund is evaluated and reported to the Company’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company’s stated objective for managing the financial assets is achieved and how cash flows are realized.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Financial instruments (continued)

i) Financial assets (continued)

Business model assessment (continued)

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward. Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessments whether contractual cash flows are solely payments of principal and profit ("SPPP" criteria)

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic placement risk associated with the principal amount outstanding during a particular period and other basic financing costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and features that modify consideration of the time value of money- e.g. periodical reset of profit rates.

ii) Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, financing, payables, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of financing and payables, net of directly attributable transaction costs. The Company's financial liabilities include accounts payable, other liabilities, Shariah compliant financing and murabaha contract.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Amortised cost
After initial recognition, long term payables are subsequently measured at amortised cost using the EPR method. Gains and losses as a result of unwinding of profit cost through EPR amortization process and on de-recognition of financial liabilities are recognized in the statement of profit or loss.

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 EPR. The EPR amortisation is included as finance costs in the statement of profit or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Financial instruments (continued)

iii) Derecognition

Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities
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 statement of profit or loss.

iv) Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the 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.

3.8 Investment properties
Investment property is held for long-term rental yields or for capital appreciation or both, and is not occupied by the Company. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured using cost model.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement for profit or loss in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

3.9 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Freehold land and capital work in progress are not depreciated. The cost less estimated residual value of other property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Property and equipment (continued)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Leasehold improvements/assets are depreciated on a straight-line basis over the shorter of the useful life of the improvement/assets or the term of the lease.

Expenditure for repairs and maintenance are charged to income. Improvements that increase the value or materially extend the life of the related assets are capitalized. Gains or losses on sale or retirement of property and equipment are included in the statement of profit or loss.

The estimated useful lives of the principal classes of assets are as follows:

	Years
Building	25
Leasehold improvements	4 and 11
Office and computer equipment	3-4
Furniture and fixtures	4
Vehicles	5

3.10 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Company, and accordingly, are not included in the financial statements.

3.11 Provisions

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

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3.12 Leases

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

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date 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 reduction of the lease liability so as to achieve a constant rate of profit on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company 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 statement of profit or loss on a straight-line basis over the lease term.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Employees' benefits

Short-term employee benefits
Short-term employee benefits are expensed as the related services are provided. A liability is recognized for the amount expected to be paid if the Company 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.

Post-employment benefits
The Company's obligation under employee end of service benefit is accounted for as an unfunded defined benefit plan and is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. Re-measurement of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in OCI. The Company determines the net profit expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of benefit payments. Net profit expense and other expenses related to defined benefit plans are recognised in employee costs in the statement of profit or loss.

3.14 Revenue recognition

Revenue is the gross inflow of economic benefits arising from the ordinary operating activities of the Company when those inflows result in increase in equity, other than increases relating to contributions from equity participants. Revenue is measured at fair value of consideration received or receivable. Revenue is recognized to the extent that it is probable that any future economic benefit associated with the item of revenue will flow to the Company, the revenue can be reliably measured, regardless of when the payment is being made and the costs are identifiable and can be measured reliably.

The Company has applied IFRS 15 Revenue from Contracts with Customers for accounting of revenue. The core principle of the IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 requires that entities apply a five-step model to determine when to recognize revenue and at what amount.

- Step:1 Identify the contract with the customer
- Step:2 Identify the performance obligations in the contract
- Step:3 Determine the transaction price
- Step:4 Allocate the transaction price to the performance obligations in the contract
- Step:5 Recognize revenue when or as the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied. i.e. when control of the services pertaining to the respective performance obligation is transferred to the customer.

The specific recognition criteria described below must also be met before revenue is recognised.

- Fixed fees received under financial services agreements are non-refundable. These are initially recorded as unearned income and subsequently earned when the related milestones have been met or the agreement is terminated.
- Success fees are recognized when the related financing has been successfully raised for the client.
- Management and custody fees are recognized on a time apportioned basis.
- Finance income on Murabaha placements is recognised on a time apportioned basis.
- Dividend income is recognised when the right to receive payment is established.

3.15 Expenses

Selling and distribution expenses are those that specifically relate to marketing expenditure. All other expenses are classified as general and administration expenses.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16 Zakat and income tax

Zakat
The Company is subject to zakat and income tax in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT") and is charged to the statements of profit or loss. Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which assessment is finalized.

Current income tax
Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid for the current year to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the Kingdom of Saudi Arabia.

Deferred income tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the brought forward unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

The Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16 Zakat and income tax (continued)

Withholding tax

The Company companies withhold taxes on transactions with non-resident parties and on dividends paid to foreign shareholders in accordance with GAZT regulations, which is not recognized as an expense being the obligation of the counter party on whose behalf the amounts are withheld.

3.17 Dividend distributions

The Company recognizes a liability to make cash dividends distribution to shareholders when the dividends are authorised and no longer at the discretion of the Company. The corresponding amount is directly recognized in statement of changes in equity.

3.18 Value added tax (VAT)

Expenses and assets are recognised net of the amount of VAT, except when the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

4.1 Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and profit on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Company.

4.2 Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments apply to annual periods beginning on or after 1 January 2020 and must be applied prospectively. Early application is permitted and must be disclosed. The Company is not expecting any change due to adoption of these amendments.

4.3 Amendments to IFRS 9, IAS 39 and IFRS 7: Profit Rate Benchmark Reform

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing profit rate benchmark with an alternative nearly risk-free profit rate (an RFR).

The amendments apply to annual periods beginning on or after 1 January 2020 and must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. Early application is permitted and must be disclosed. These amendments are not applicable to the Company.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

4.4 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. The amendment to IFRS 10 and IAS 28 is not applicable on the Company.

4.5 Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net profit for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net profit, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

5. MURABAHA PLACEMENTS

Murabaha placements carry profit rate ranging from of 4.25% to 6.5% per annum (31 December 2018: 4.25% to 5.7% per annum).

	31 December 2019 SR '000	*31 December 2018 SR '000*
Murabaha placement (note a)	**63,463**	161,700
Less: current portion	**(46,963)**	(120,500)
Long-term portion	**16,500**	41,200

a) During the year, the company placed Murabaha to a fund amounting to SR 46 million (note 8).

6. ACCOUNTS RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2019 **SR'000**	*31 December 2018* SR'000
Receivable against investment sold (note 'a')	**-**	52,465
Dividend receivable	**4,900**	4,900
Advance against investment	**17,107**	-
Contingent consideration (note b)	**6,110**	-
Margin deposit (note c)	**3,850**	14,208
Accounts receivable	**2,896**	3,483
Advances to suppliers	**2,909**	3,604
Prepayments	**1,577**	1,926
Other receivables	**3,519**	2,545
Allowance for impairment	**(2,896)**	(2,896)
	39,972	80,235

a) During the year, the Company settled outstanding receivable of SR 52.46 million by acquisition of an investment (note 8).

b) The amount represents the consideration to be paid if the underlying asset of the fund will achieve certain performance benchmark. As of the statement of financial position date, management, based on its assessment, has recorded the amount with equal amount of liability that may be paid to the fund, if certain performance threshold is delivered (note 11).

c) The Company has maintained a margin deposit of SR 3.85 million (31 December 2018: SR 14.208 million) with a local bank in respect of a guarantees issued in favour of GAZT. During the year, margin deposits amounting SR 10.36 million was released by the GAZT through the bank due to settlement of pending appeal (note 15).

7. RELATED PARTY TRANSACTIONS AND BALANCES

a) Related parties represent directors and key management personnel of the Company, fund and entities controlled or significantly influences by such parties. Significant related party transactions during the year and balances arising are described below:

Transactions with	*Nature of transactions*	***Amount of transactions for the year ended***		***Balances as at***	
		31 December 2019 SR'000	*31 December 2018 SR'000*	***31 December 2019 SR'000***	*31 December 2018 SR'000*
Due from related parties					
Funds under management and Companies	Investments acquired/disposed by the Company and gain/loss thereon	**(189,541)**	49,956	**1,190,822**	1,380,362
	Expenses and advances	**5,101**	17,348	**23,064**	17,963
	Management, custody and subscription fees reduced by payments received	**33,112**	25,336	**103,319**	70,207
	Gain from sale of equity and property investment to managed funds and companies as referred above	**66,793**	140,135	**-**	-
				126,383	88,170
Murabaha placement		**112,000**	19,539	**46,000**	158,000

b) The Company has issued a corporate guarantee on behalf of a related party (note 25 'd').

c) Key management personnel including members of the Board of Directors of the Company comprise key members of the management having authority and responsibility for planning, directing and controlling the activities of the Company. The key management personnel compensation is as follows:

	For the year ended 31 December 2019 SR '000	*For the year ended 31 December 2018 SR '000*
Salaries and other short-term benefits	**16,464**	17,142
Post-employment benefits	**1,074**	1,037
	17,538	18,179

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Company meets the definition of an “investment entity”. Accordingly, its investments in managed funds and companies are carried at their fair value through profit or loss as “financial assets at fair value through profit or loss”.

The movement in the financial assets at fair value through profit or loss for the year ended 31 December is as follows:

	For the year ended 31 December 2019 SR ’000	*For the year ended 31 December 2018 SR ’000*
Opening balance	**1,380,362**	1,330,406
Purchased during the year	**101,737**	257,865
Transfers (note a)	**52,465**	(39,000)
Capital distribution (note b)	**-**	(147,537)
Sold during the year	**(292,990)**	(124,058)
Fair value loss, net	**(50,752)**	102,686
	1,190,822	1,380,362

a) During the year, the Company acquired an investment against outstanding receivable of 52.46 million (note 6). The seller has the option to buy back the investment within one year at the price sold of SR 52.46 million. Subsequently, the Company fair valued the investment after being transferred to a fund managed by the Company and, simultaneously, recorded a corresponding fair value liability of the option.

b) In 2018, a fund distributed its underlying asset, a property, to the units holders in proportionate to the units held by each investor (note 27). The property is classified as “investment property” in accordance with the accounting policy adopted.

c) Certain of the investments amounting to SR 162 million (2018: SR 408 million) are pledged against Sharia Compliant borrowings (note 13).

d) The details of the Company’s holding in the managed funds or the companies:

Name of fund	***31 December 2019***	*31 December 2018*
Alkhabeer US Real Estate Income Fund I	**11%**	11%
Alkhabeer Industrial Private Equity Fund	**1%**	-
Alkhabeer Healthcare Private Equity Fund	**9%**	9%
Alkhabeer SME Fund I	**-**	98%
Alkhabeer Real Estate Opportunity Fund I	**38%**	38%
Alkhabeer Real Estate Residential Development Fund II	**8%**	-
Alkhabeer Land Development Fund II	**-**	3%
Alkhabeer Education Private Equity Fund I	**28%**	28%
Alkhabeer Hospitality Fund I	**75%**	75%
Alkhabeer Real Estate Opportunity Fund II	**100%**	100%
Alkhabeer REIT	**7%**	7%
Alkhabeer Education Private Equity Fund II	**88%**	100%
Alkhabeer Education Private Equity Fund III	**90%**	100%
Alkhabeer Education Private Equity Fund IV	**100%**	-
Name of companies		
Alkhabeer Industrial Private Equity Company – III Ltd.	**40%**	20%
Alkhabeer GCC Opportunity Company	**87%**	92%

e) Alkhabeer SME fund I and Alkhabeer land development fund II have been dissolved during the year.

9. RIGHT OF USE ASSETS

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	31 December 2019 SR '000	*31 December 2018 SR '000*
Cost:		
IFRS transition adjustments	**7,764**	-
Depreciation:		
Depreciation for the year	**(776)**	**-**
As at 31 December 2019	**6,988**	**-**

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	31 December 2019 SR '000	*31 December 2018 SR '000*
IFRS transition adjustments	**7,764**	-
Payment of principal portion of lease liabilities during the year	**(564)**	-
Lease liability as at 31 December 2019	**7,200**	-
Current portion of lease liability	**(591)**	-
Long term portion of lease liability	**6,609**	-

The following are the amounts recognized in profit or loss:

	31 December 2019 SR '000	*31 December 2018 SR '000*
Depreciation expense of right-of-use assets	**776**	**-**
Finance cost on leased liabilities	**336**	**-**
Total amount recognized in profit or loss	**1,112**	**-**

10. PROPERTY AND EQUIPMENT

	Land	*Building*	*Leasehold improvements*	*Office and computer equipment*	*Furniture and fixtures*	*Vehicles*	*Capital work in progress*	*31 December 2019*
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*
Cost								
At the beginning of the year	6,966	34,804	10,961	18,972	1,301	396	1,509	**74,909**
Additions	-	-	-	677	14	-	4,350	**5,041**
Transfers (note a)		3,591	-	-	-	-	(3,591)	**-**
Disposals	-	-	-	(313)	-	-	-	**(313)**
At the end of the year	6,966	38,395	10,961	19,336	1,315	396	2,268	**79,637**
Accumulated depreciation								
At the beginning of the year	-	6,669	2,921	16,665	1,194	300	-	**27,749**
Depreciation (note 21)		1,291	807	1,348	31	50	-	**3,527**
Related to disposals	-	-	-	(179)	-	-	**-**	**(179)**
At the end of the year	-	7,960	3,728	17,834	1,225	350	-	**31,097**
Net book amounts								
At 31 December 2019	**6,966**	**30,435**	**7,233**	**1,502**	**90**	**46**	**2,268**	**48,540**

a) Capital work in progress relates to contractor payments for construction and renovation work on the building owned by the Company.

10. PROPERTY AND EQUIPMENT (continued)

	Land	*Building*	*Leasehold improvements*	*Office and computer equipment*	*Furniture and fixtures*	*Vehicles*	*Capital work in progress*	*31 December 2018*
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*
Cost								
At the beginning of the year	6,966	14,234	10,961	17,887	1,286	396	19,460	71,190
Additions	-	-	-	1,154	15	-	2,619	3,788
Transfers (note a)	-	20,570	-	-	-	-	(20,570)	-
Disposals	-	-	-	(69)	-	-	-	(69)
At the end of the year	6,966	34,804	10,961	18,972	1,301	396	1,509	74,909
Accumulated depreciation								
At the beginning of the year	-	6,196	2,114	14,712	1,101	234	-	24,357
Depreciation (note 21)	-	473	807	2,020	93	66	-	3,459
Discontinued operations	-	-	-	-	-	-	-	-
Related to disposals		-	-	(67)	-	-	-	(67)
At the end of the year	-	6,669	2,921	16,665	1,194	300	-	27,749
Net book amounts								
At 31 December 2018	6,966	28,135	8,040	2,307	107	96	1,509	47,160

a) Capital work in progress relates to contractor payments for construction and renovation work on the building owned by the Company.

11. ACCOUNT PAYABLES, ACCRUED AND OTHER LIABILITIES

	31 December 2019 SR '000	*31 December 2018 SR '000*
Payable against investment purchased	**28,445**	109,986
Fair value of the option (note 8a)	**5,535**	-
Contingent consideration (note 6b)	**6,110**	-
Accounts payable	**15,040**	13,546
Remuneration payable to employees	**10,375**	20,528
Accrued expenses	**24,205**	23,174
Other provisions	**48,000**	50,000
Provision for zakat and income tax	**-**	1,595
Other payables	**2,689**	3,447
	140,399	222,276

12. MURABAHA CONTRACTS

This represent commodity Murabaha contracts executed with investors through Discretionary Portfolio Managers (DPMs). The murabaha contracts are unsecured, carry profit rate ranging from 4.25% to 6.5% per annum (31 December 2018: 1.42% to 6.5% per annum) and are subject to 0.25% to 0.5% per annum (31 December 2018: 0.2% to 1% per annum) management fee.

	31 December 2019 SR '000	*31 December 2018 SR '000*
Murabaha contracts	**630,682**	487,950
Less: current portion	**(382,282)**	(247,050)
Long-term portion	**248,400**	240,900

13. SHARIA COMPLIANT FINANCING

a) During 2016, the Company obtained a sharia compliant financing from a local bank with an approved limit of SR 100 million to be repaid over 5 years. The Company has drawn down SR 50 million on 11 August 2016 and SR 50 million on 30 October 2016. The financing carries commercial profit and is secured against certain "financial assets at fair value through profit or loss" and all returns generated from respective investments (note 8).

b) During 2017, the Company obtained a sharia compliant financing from a local bank amounting to SR 150 million. The facility is repayable over a period of two years starting from June 2018, at agreed profit margin and is secured against certain "financial assets at fair value through profit or loss" and all returns generated from respective investments.

	31 December 2019 SR '000	*31 December 2018 SR '000*
Sharia compliant financing	**94,518**	220,398
Less: current portion	**(51,500)**	(126,500)
Long-term portion shown under non-current liabilities	**43,018**	93,898

14. EMPLOYEES' TERMINAL BENEFITS

Changes in the present value of defined benefit obligation are as follows:

	For the year ended 31 December 2019 SR '000	*For the year ended 31 December 2018 SR '000*
Balance at the beginning of the year	**11,504**	10,633
Current service cost	**2,591**	2,057
Profit	**530**	419
Benefits paid	**(916)**	(1,031)
Actuarial loss/ (gain), net	**490**	(574)
Balance at the end of the year	**14,199**	11,504

Principal assumptions used in determining defined benefit obligation are as shown below:

	31 December 2019 SR '000	*31 December 2018 SR '000*
Discount rate	**3.11%**	4.4%
Salary increase	**2.25%**	2.25%
Staff withdrawal rate	**6%**	6%

15. ZAKAT AND INCOME TAX

Provision for zakat and income tax as at the statement of financial position date is as follows:

	31 December 2019 SR '000	*31 December 2018 SR '000*
Zakat for prior year	**3**	1,438
Income tax	**-**	157
	3	1,595

Current year provision was estimated as nil due to negative Zakat base as follows:

	For the year ended 31 December 2019 SR '000	*For the year ended 31 December 2018 SR '000*
Equity	**969,391**	914,993
Provisions and other adjustments	**456,742**	572,518
Book value of long term assets	**(1,364,952)**	(1,553,492)
	61,181	(65,981)
Saudi Shareholders' share of adjusted income for the year	**(118,869)**	57,527
Adjusted zakat base	**(57,688)**	(8,454)

15. ZAKAT AND INCOME TAX (continued)

The differences between the financial and the zakatable results are mainly due to certain adjustments in accordance with relevant fiscal regulations.

Movement in provision during the year
The movement in zakat provision for the year was as follows:

	31 December 2019 SR '000	*31 December 2018 SR '000*
Balance at the beginning of the year	**1,438**	2,055
Charge for the current year	**-**	1,438
Charge for prior year	**3**	-
Adjusted / paid during the year	**(1,441)**	(2,055)
Balance at the end of the year	**-**	1,438

Income tax
Income tax charges are based on the adjusted taxable income calculated on the portion of equity owned by the foreign shareholder. No provision has been made during the year due to taxable loss. The significant tax adjustments made to accounting net income relate to depreciation, employees' termination benefits and provision against doubtful receivables.

Movement in provision during the year
The movement in income tax provision for the year was as follows:

	31 December 2019 SR '000	*31 December 2018 SR '000*
Balance at the beginning of the year	**157**	141
Charge for the year	**-**	157
Adjusted / paid during the year	**(157)**	(141)
Balance at the end of the year	**-**	157

Status of assessments

In earlier years, General Authority of Zakat and Tax (GAZT) raised an assessment with additional liability amounting to SR 10.36 million for the period ended 31 December 2008. The Company filed an appeal with the former Preliminary Appeal Committee (POC) against GAZT's assessment which is partially accepted. The Company was not satisfied with the POC decision and filed second appeal with the former Higher Appeal Committee (HAC). The HAC rendered its decision upholding POC decision and GAZT's treatment. The Company then filed an appeal to Board of Grievance (BOG) against HAC decision and lodged a bank guarantee against the disputed liability. Pending BOG decision, the Company, in year 2019, appealed to Settlement Committee. Settlement Committee decided that the Company to pay SR 5.1 million representing 50% of the disputed amount. Accordingly, GAZT instructed the bank to release the subject bank guarantee.

GAZT raised an assessment with an additional liability amounting to SR 3.85 million for the year ended 31 December 2009. The Company filed an appeal with POC against the GAZT assessment. The POC rendered its decision and upheld the GAZT's treatment. The Company has filed an appeal to HAC against POC decision and lodged a bank guarantee against GAZT assessment.

GAZT also raised an assessment with an additional liability amounting to SR 9.36 million for the year ended 31 December 2010. The Company filed an objection against the GAZT assessment.

The GAZT has issued an assessment for the year ended 31 December 2017 and raised an additional tax and Zakat liability amounting to SR 35.8 million. The additional liability is principally on account of disallowed investments. The Company filed an objection against the GAZT assessment. The Company also registered the case with GSTC and provided comments on the GAZT's response. However, if investments are disallowed as a deduction from the Zakat base for the year 2017, it would result in potential Zakat liability to the Company which remains an industry wide unsolved issue and as of now, in view of the fact that zakat Regulations in Saudi Arabia are subject to different interpretations, it is not possible to assess any potential zakat impact reliably.

15. ZAKAT AND INCOME TAX (continued)

Status of assessments (continued)

The Company's management is expecting a favourable decision regarding the above appeals.

The Company has filed its tax and zakat returns for all the years ended 31 December 2018 and obtained restricted Zakat certificate valid until 30 April 2020.

16. DIVIDEND

During 2018, the Annual General Meeting of the Company approved a dividend of 3% of paid up capital amounting to SR 24,396 thousands through its 8th meeting held on 13 May 2018. Subsequently, the Extra Ordinary General Meeting of the Company deferred 1.5% of the approved dividend amounting to SR 12,198 thousands through its meeting held on 24 December 2018 to be paid in 2019.

17. SHARE CAPITAL

The share capital of the Company, amounting to SR 894,523,230 is divided into 89,452,322 shares of SR 10 each (31 December 2018: 81,320,293 shares of SR 10 each). On 27 Sha'ban 1440H corresponding to 2 May 2019, the Company's share capital was increased from SR 813,202,930 to SR 894,523,230 by transferring the amount from retained earnings to share capital. The amendment to the Commercial Registration of the Company is under process. The Company is owned 98.43% by Saudi shareholders and 1.57% by foreign shareholders (31 December 2018: same).

18. STATUTORY RESERVE

In accordance with the Companies law, a minimum of 10% of the annual net income for the year is required to be transferred to the statutory reserve.

In accordance with Companies law and Articles of Association of the Company, 10% of the profit for the year has been transferred to statutory reserves in the prior years and no transfer was made in the current year on account of loss during the year. The Company has resolved to discontinue such transfers when the reserve totals 30% of the share capital. The reserve is not available for distribution.

19. FEE INCOME

	For the year ended 31 December 2019 SR '000	*For the year ended 31 December 2018 SR '000*
Advisory fees	**-**	660
Management, custody and subscription fees	**46,021**	50,999
Structure fee	**-**	12,856
	46,021	64,515

20. SELLING AND MARKETING EXPENSES

	For the year ended 31 December 2019 SR '000	*For the year ended 31 December 2018 SR '000*
Salaries and benefits	**4,801**	4,565
Other	**1,599**	4,612
	6,400	9,177

21. GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December 2019 SR '000	*For the year ended 31 December 2018 SR '000*
Salaries and benefits	**48,549**	53,565
Legal and consultancy	**20,753**	15,041
Communication	**7,474**	4,500
Business travel	**3,074**	2,985
Depreciation (note 10)	**3,527**	3,459
Depreciation on right of use assets (note 9)	**776**	-
Rent and premises related expenses	**506**	1,696
Office supplies	**407**	341
Utilities	**534**	560
Insurance	**361**	339
Cost related to subsidiary	**1,385**	-
Other	**8,480**	7,151
	95,826	89,637

22. RISK MANAGEMENT

The Company's objective in managing risk is the creation and protection of shareholders' value. Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposure relating to his or her responsibilities. These limits reflect the business strategy and market environment of the Company as well as the level of the risk that the Company is willing to accept. The Company is exposed to market risk, credit risk and liquidity risk.

Market risk
Market risk is the risk that the fluctuation of fair value or future cash flows of a financial instrument as a result of changes in market prices, rates, and equity prices, will affect the Company'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 on risk.

Market risk comprises of three types of risks: Profit rate risk, currency risk and equity price risk.

Profit rate risk
Profit rate risk arises from the effects of fluctuations in the prevailing levels of markets profit rates on the fair value of financial assets and liabilities and future cash flow. The Company does not hold fixed rate financial assets which are carried at fair values that could expose the Company to fair value profit rate risk. However, the Company holds floating rate Shariah compliant borrowings, Murabaha contracts and Murabaha placements that expose the Company to cash flow profit rate risk. The Company's manages its rate risk on a dynamic basis keeping in view overall rate bearing assets and liabilities and the Company requirements.

The Company's Shariah compliant financing with floating rate of profit, are placed with a fund managed by the Company with identical terms. Accordingly, any changes in the applicable profit rate is passed on to the managed fund. Similarly, the Company's Murabaha contracts are of long term nature carrying fixed rate. However, certain Murabaha contracts, though carry fixed rate, were of short term nature and had a history of frequent rollover and could expose the Group to cash flow rate risk. Management believe that any change in the applicable rates related to such contracts would not result in material changes to the reported income for current or prior year.

Currency risk
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The Company invests in funds and other investments that are denominated in currencies other than the Saudi Riyal which are pegged to the Saudi Riyal accordingly the Company is not exposed to significant foreign exchange risk.

22. RISK MANAGEMENT (continued)

Market risk (continued)

Equity price risk
Equity price risk is the risk of unfavourable changes in the fair values of equity as the result of changes in the levels of equity indices and the value of individual shares. The equity price risk exposure arises from the Company's investments in equity securities. The Company is not exposed in equity price risk as none of the investment are quoted.

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to the risk of credit-related losses that can occur as a result of a counterparty or issuer being unable or unwilling to honour its contractual obligations. The Company is exposed to credit risk on its bank balances, Murabaha placements, accounts receivable and due from related parties.

In calculating the expected credit loss allowance for accounts receivable and due from related parties, a provision matrix has been used based on historical observed loss rates over the expected life of the receivables adjusted for forward-looking estimates.

The Company's maximum exposure to credit risk for the components of the statement of financial position and respective expected credit loss is as follows:

	31 December 2019		31 December 2018	
Financial assets	**Exposure at default**	**Expected credit loss**	Exposure at default	Expected credit loss
	SR'000	***SR'000***	*SR'000*	*SR'000*
Murabaha placements (note 5)	**63,463**	**-**	161,700	-
Due from related parties (note below)	**126,383**	**-**	88,170	-
Accounts receivables	**2,896**	**2,896**	60,848	2,896

	31 December 2019					
	Current	***< 1 Year***	***1-2 Years***	***2-3 Years***	***> 3 Years***	***Total***
	SR'000	***SR'000***	***SR'000***	***SR'000***	***SR'000***	***SR'000***
Murabaha placements (note 5)	**63,463**	**-**	**-**	**-**	**-**	**63,463**
Due from related parties (note below)	**31,237**	**32,355**	**33,573**	**22,027**	**7,191**	**126,383**
Accounts receivables	**-**	**-**	**-**	**-**	**2,896**	**2,896**

	31 December 2018					
	Current	*< 1 Year*	*1-2 Years*	*2-3 Years*	*> 3 Years*	*Total*
	SR'000	*SR'000*	*SR'000*	*SR'000*	*SR'000*	*SR'000*
Murabaha placements (note 5)	161,700	-	-	-	-	161,700
Due from related parties (note below)	33,873	20,044	30,987	3,266	-	88,170
Accounts receivables	-	137	57,800	-	2,911	60,848

In its capacity as fund manager, the Company have first right to recover the balance due from funds / Companies under management in respect of outstanding management fee, custody fee and administration fee. As at the date of financial statements, underlying funds / Companies have positive net assets value and management estimated that expected credit losses, if any, would not be material.

Financial assets at fair value through profit or loss are not subject to expected credit loss requirement as these are measured at FVTPL that captures the expected credit loss from underlying financial assets.

22. RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Exposure to liquidity risk arises because of the possibility that the Company could be required to pay its liabilities or redeem its shares earlier than expected.

The efficient management of liquidity risk begins with the development of written policies and procedures, including the policy of minimal acceptable levels of liquidity. Liquidity risk management is performed by continuous liquidity monitoring, measuring and reporting.

The Company's financial liabilities are payable within 12 months from the statement of financial position date except certain long-term murabaha contracts and non current portion of sharia compliant financing which have maturity of more than 12 months from the statement of financial position date.

23. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction.

The Company's financial assets consist of cash and cash equivalents, accounts receivable, Murabaha placements, financial assets at fair value through profit or loss, due from related parties and financial liabilities consist of accounts payable, shariah compliant financing and Murabaha contracts.

The fair values of investments in funds managed by the Company is obtained from net asset values disclosed in the audited financial statements of those funds, net asset values provided by the external fund managers or recent sales transactions. In real estate funds, the fair value of underlying real estate investments is based on the valuation provided by independent valuers.

As at the date of statement of financial position, all financial assets and financial liabilities falls under level 3 of fair value hierarchy. The fair values of financial instruments are not materially different from their carrying values (31 December 2018 same).

24. ASSETS HELD UNDER FIDUCIARY CAPACITY

The Company holds assets on behalf of its customers. As the Company acts in a fiduciary capacity, these assets are not included in the statement of financial position. As at 31 December 2019, the Company holds assets under management amounting to SR 3,015 million (31 December 2018: SR 4,218 million) on behalf of, and for the beneficial interest of, its customers.

Legal title of the underlying assets of AKC's managed funds and companies are held by the custodian through certain special purpose vehicles, on behalf of the funds and companies. Since, AKC has ownership interest in these special purpose vehicles as trustee, the financial information and related share of results of these entities are not included in these financial statements.

25. CONTINGENCIES AND CAPITAL COMMITMENTS

a) Certain legal claims have been filed by third parties against the Company in the normal course of business. The Company's management expects a favourable outcome of these claims.

b) The Company has maintained a margin deposit of SR 3.85 million (31 December 2018: SR 14.208 million) with a local bank in respect of a guarantee issued in favour of GAZT.

c) The Board of Directors has authorised future capital expenditure, amounting to SR 2.9 million (31 December 2018: SR 5 million) in connection with leasehold improvements and construction under progress.

25. CONTINGENCIES AND CAPITAL COMMITMENTS (continued)

d) The Company issued a corporate guarantee on behalf of a related party for an outstanding amount of SR 142.6 million (31 December 2018: SR 120 million). The related party simultaneously issued a back-to-back corporate guarantee to the Company. This amount is due for settlement by the respective related party on 21 January 2025.

26. REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY RATIO

The Company's objectives when managing capital is to comply with the capital requirements set by the Capital Market Authority (CMA) to safeguard the Company's ability to continue as a going concern and to maintain a strong capital base.

During the year ended 31 December 2013, Prudential Rules (the "rules") were introduced by the CMA pursuant to its Resolution Number 1-40-2012 dated 17/2/1434H corresponding to 30/12/2012G. The rules state that an authorised person shall continually possess a capital base, which corresponds to not less than the total of the capital requirements as prescribed under Part 3 of Prudential Rules.

The details of the minimum capital requirement and capital base are as follows:

	31 December 2019 SR '000	*31 December 2018 SR '000*
Capital base		
Tier-1 capital	**848,882**	985,427
Tier-2 capital	**-**	-
Total capital base	**848,882**	985,427
Minimum capital requirement		
Credit risk	**716,145**	869,890
Market risk	**8,576**	7,945
Operational risk	**35,849**	32,838
Total minimum capital required	**760,570**	910,673
Capital Adequacy Ratio		
Total capital ratio (time)	**1.12**	1.08
Surplus in capital	**88,312**	74,754

27. INVESTMENT PROPERTY

The Company received property as a result of distribution of the assets by a fund managed by the Company (note 8). The property is carried at cost. The fair value of the property valued by Saad Ali AlNajjar Sons Limited - licensed by "Saudi Authority for Accredited Valuers" on 29 December 2019 was SR 148,525 thousand (31 December 2018: SR 148,525 thousands). The property is registered in the name of "Tawasou Al-Thanya L.L.C" which has provided an undertaking that property is held by it on behalf of the Company.

28 INVESTMENTS IN SUBSIDIARY

Al Khabeer Capital DIFC
The Subsidiary was registered in Dubai, DIFC, and had a license to operate as an authorised firm and carry out financial services in respect of advising on financial products, arranging deals in investments, managing assets, arranging custody, arranging credit and advising credits.

The movement in the carrying value of investment in subsidiary during the year is as follows:

	For the period ended 21 November 2019 SR '000	*For the year ended 31 December 2018 SR '000*
Opening balance	**3,475**	3,616
Transfer of net assets to the Company	**(2,090)**	-
Share of results till the date of dissolution	**(1,385)**	(141)
Closing balance	**-**	3,475

Summarized financial information

	As at 21 November 2019 SR '000	*As at 31 December 2018 SR '000*
Non-current assets	**134**	134
Current assets	**3,978**	3,978
Non-current liabilities	**-**	-
Current liabilities	**2,022**	637
Equity	**2,090**	3,475

29. EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing profit for the year by the weighted average number of ordinary shares in issue outstanding during the year (note 17).

The diluted EPS is same as the basic EPS as the Company does not have any dilutive instruments in issue.

30. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform with the presentation in the current year.

31. BOARD OF DIRECTORS' APPROVAL

The financial statements were approved by the Board of Directors on 11 March 2020 (corresponding to 16 Rajab 1441H).