DAR AL ARKAN

دار الأركان

25 years

@merah

ANNUAL REPORT 2019

King Salman Bin Abdulaziz Al Saud

The Custodian of the two Holy Mosques

Crown Prince Mohammad Bin Salman Bin Abdulaziz Al Saud

Deputy Premier and Minister of Defense

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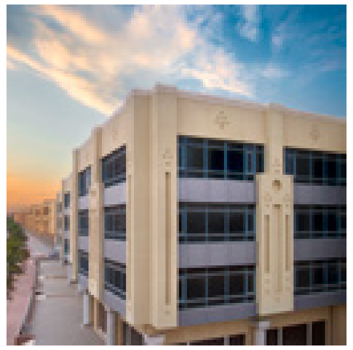
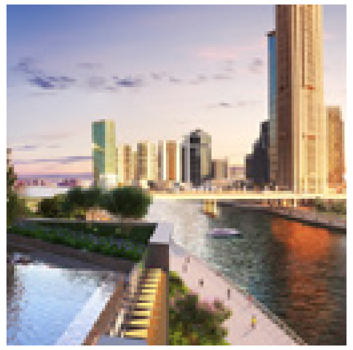
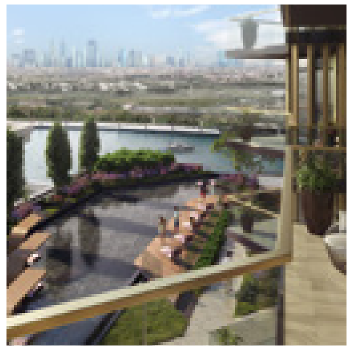
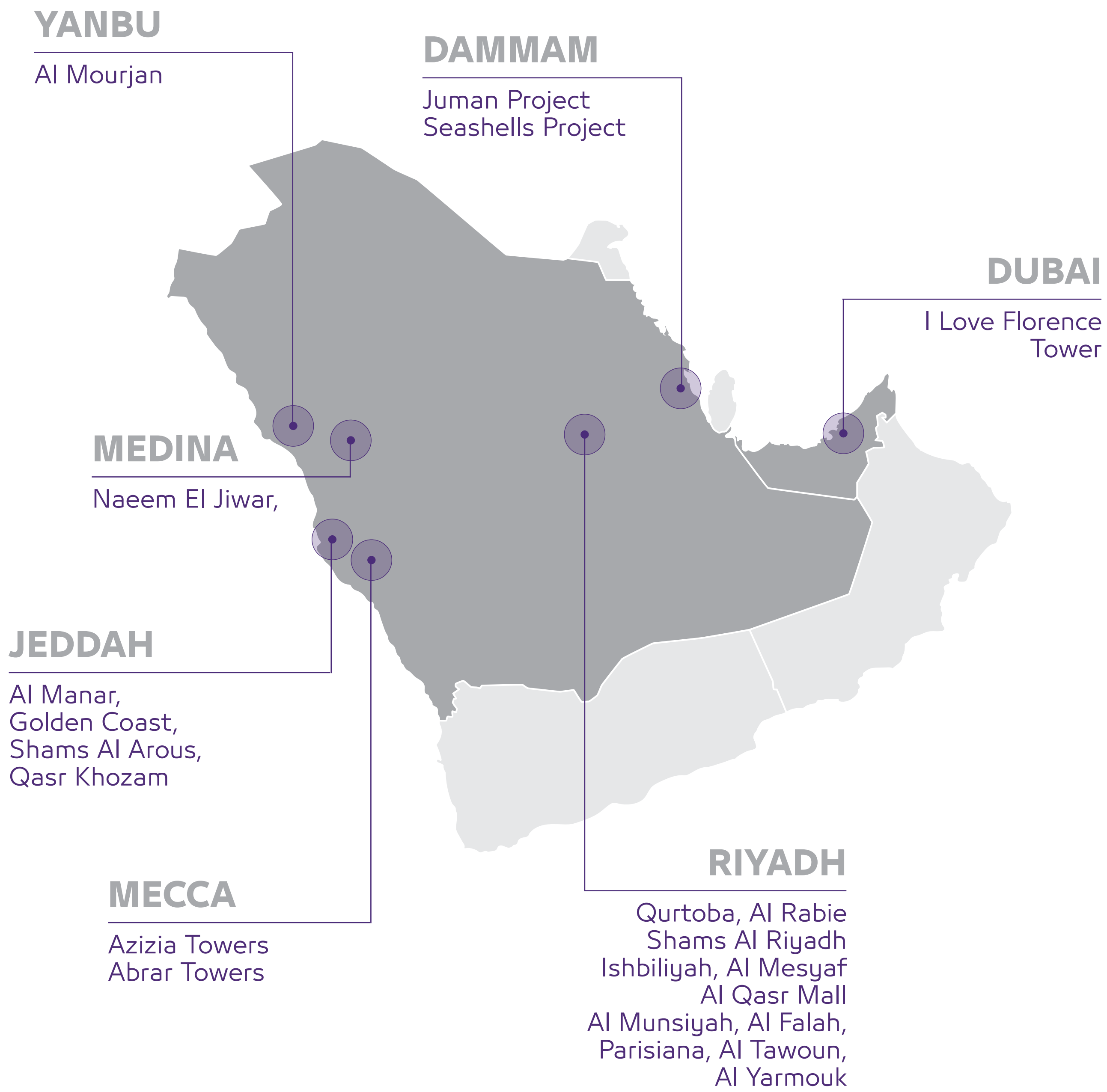
COMPANY OVERVIEW

Capital
10.8
Billion Saudi Riyals

Assets
28
Billion Saudi Riyals

Investments in Lands and Properties
19
Billion Saudi Riyals

1994
Founded on 28 Dec 1994

2005
Dar Al Arkan becomes a joint stock company by ministerial decree number 1021

2007
Issuance of the first Sukuk in the value of $600 million in Feb 2007 and maturing in Mar 2010, listed on the Dubai NASDAQ

Listing of Dar Al Arakan on the Saudi Stock Ex- change Tadawul

2013
Opening of Al Qasr Mall in Riyadh

2017
Launching I Love Florence tower in Dubai as the first international project

2018
Launching Mirabila the first phase of Shams Ar Riyadh development in the Saudi capital

Issuance of Sukuk in the value of $500 million in Mar 2018 and maturing in Apr 2023, listed on the Dubai NASDAQ

2019
Opening of 15 screen VOX cineplex in Al Qasr Mall

Issuance of 10^{th} Sukuk in the value of $600 million in Oct 2019 and maturing in Feb 2025, listed on the Dubai NASDAQ

CHAIRMAN'S MESSAGE

Yousef Abdullah Al Shelash
Chairman

On behalf of the Board of directors, I am delighted to present Dar Al-Arkan's Annual Report, for the year ending 31st December 2019.

> **Dar Al Arkan will not only be known for being a premier developer of bricks and mortar but also for being on the frontier of using technologies that improve efficiency and productivity and reduce customer acquisition costs.**

2019 marks the 25th year of operation for Dar Al Arkan, a quarter of a century in the service of our customers, investors and our beloved Kingdom. What had started as an entrepreneurial project in 1994 is today a leading publically listed Saudi corporate and a standard-bearer for the real estate sector. Our journey together has been filled with achievements; from our first urban development project in Riyadh, Al Taawon, followed by Ishbilia, Parisiana the 3,500 units' community and Al Qasr Mall with the first 15-screen cinema multiplex in Riyadh, to the relaunch of Shams Ar Riyadh in collaboration with Roberto Cavali. In addition to our maiden project outside our home market, the I Love Florence tower in Dubai.

This journey has not been without its challenges. Together we weathered local economic corrections and global financial crises. These trials only made us stronger, adding to our experience in managing market volatility and changing operating environments. Today, I am proud to say that twelve years past our 2007 listing on Tadawul, Dar Al Arkan is a major player not only in the Saudi real estate market but also in the Saudi public equities market as well as the global debt capital markets.

With underlying markets improving, 2019 was another successful year. We witnessed a rebound in our margins, which averaged 24% for the full year 2019. Furthermore and after building considerable liquidity during 2017 and 2018, we started replenishing our land bank and ended the year as net investors having deployed SAR 5.4 billion. The strength of our financials and operating model was recognized by the markets as our share price delivered sector leading returns.

Dar Al Arkan is always anchored in prudent and conservative financial management. A milestone for 2019 was the repayment in May of Sukuk IX, SAR 1.5 billion from our internal resources. In October, we completed the successful issuance of Sukuk X, a $600M Islamic Sukuk that was hugely oversubscribed by local, regional and international investors. We are very proud of being a pioneering Saudi corporate in this universe and of the trust credit investors have in our stewardship of their capital.

These actions allowed us to continue to build liquidity on the balance sheet, in preparation for capital deployment, as the Saudi market rebounds from its recent slump. Having this flexibility will allow us to access attractive opportunities and will position us as a partner of choice for private and government entities in search of development know how.

At Dar Al Arkan we aspire to be the premier real estate developer in the Kingdom. The real estate sector is a major contributor to the economy, and guided by the Saudi Vision2030, under the guidance of the Custodian of the Two Holy Mosques, King Salman Bin Abdulaziz Al Saud, and The Crown Prince Mohammad Bin Salman Bin Abdulaziz Al Saud, our solutions aim to play an integral role in delivering on the objectives of the Vision2030 for the real estate sector.

Looking to the future, we recognize that the real estate sector is ripe for digital and technological evolution. This sector has been run historically along very traditional lines. We see great opportunities to deploy technologies across the value chain to bring the sector into the 21st century. We will bring in solutions for Customer Relationship Management (CRM), use Big Data and Artificial Intelligence (AI) in lead generation and management as well as Blockchain applications in contract development. In addition, we will investigate the adoption of Smart Home solutions in our product development. Dar Al Arkan will not only be known for being a premier developer of bricks and mortar but also for being on the frontier of using technologies that improve efficiency and productivity and reduce customer acquisition costs.

Turning to all our stakeholders, I would like to thank my fellow Directors for their honest and wise counsel during the year. On behalf of the Board, I would also like to express our gratitude to Dar Al Arkan's management and most importantly the entire staff for their hard work. It is only through their exceptional work ethic and dedication that we can deliver superior results.

2019 has been another stellar year in the storied history of this firm. As we look forward, with optimism, to the years ahead, we remain steadfast in our ambitions and confident in our ability to generate superior shareholder value.

STRATEGIC REVIEW

Message of the C.E.O

> **Dar Al Arkan is indeed very well positioned to not only benefit from the Saudi real estate market changes but to effectively take a leading role in shaping the outcomes.**

Anand Raheja
Chief Executive Officer

2019 was a transition year in many respects. Internally, we had a passing of the baton both at CEO and CFO levels. Importantly, these changes were seamless with internal appointments, as I moved from CFO to CEO and my colleague Philip Antony, a twelve years veteran of Dar Al Arkan's Finance department, took over the CFO brief. These changes underline the depth of talent at senior management levels, but also critically signal a continuity in the execution of our current strategic direction set by the board of directors.

The transition also extended to the real estate market as a whole, with sequential improvement in underlying trading conditions driving healthier demand, better pricing and improved margins. Thus, in 2019 we shifted our focus from generating liquidity to optimizing margins, we also turned net investors as we deployed capital to replenish our land bank.

Our projects under development are progressing to plan, specifically; I Love Florence in Dubai is on time and budget for a 2021 delivery, with the major works contract awarded in June 2019 after the completion of the infrastructure and piling. Shams Ar Riyadh has benefitted from the healthy market condition in north Riyadh and booking levels have been very encouraging, in fact, our Mirabilia cluster is sold out and our waiting list for subsequent launch phases is very healthy. Infrastructure works are continuing on site and our show villas are expected to be completed by mid-2020.

Furthermore, our completed projects, Al Tilal in Madina and Parisiana in south Riyadh are seeing improved interest especially from the beneficiaries of the Ministry of Housing Sakani program.

We are strong believers that new operating models will drive the next growth phase in the Saudi residential market. Partnerships between asset owners and developers, private and public sectors, as well as novel living concepts will be introduced. Dar Al Arkan, possesses both the operational flexibility, talent base and financial muscle to play a leading role in these developments.

Financially, we ended the year with a strong set of results. We also added to our liquidity with our tenth Sukuk issuance in October, which was exceptionally well received by the global capital markets and allowed us to successfully diversify the institutional investor participation across major global financial centers. 2019 was also the year the Saudi equity market entered the global emerging markets indices of MSCI and FTSE, thus generating very high interest from international investors in the Saudi companies participating in the index. We have ramped up our engagement with global institutional investors and saw our institutional investor base grow substantially.

Dar Al Arkan is indeed very well positioned to not only benefit from the Saudi real estate market changes but to effectively take a leading role in shaping the outcomes.

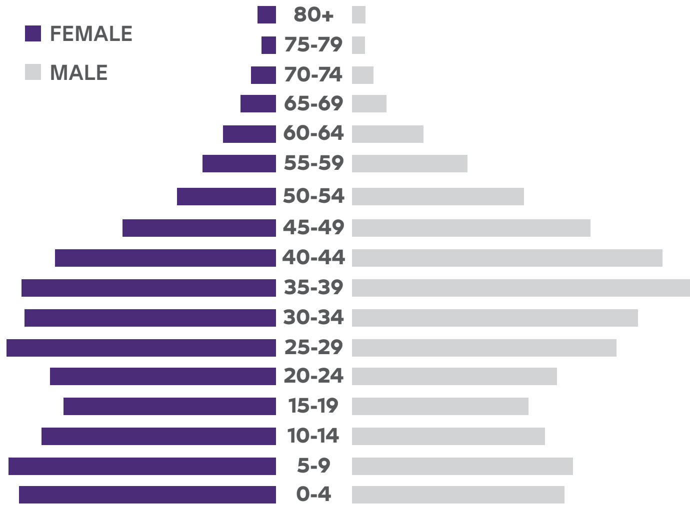
OUR MARKETS

The Saudi market represents a secular growth opportunity for real estate development.
The drivers of growth are anchored in 4 pillars:

- Positive demographic trends
- Structural supply deficit
- Relatively low home ownership penetration
- Government focus and support

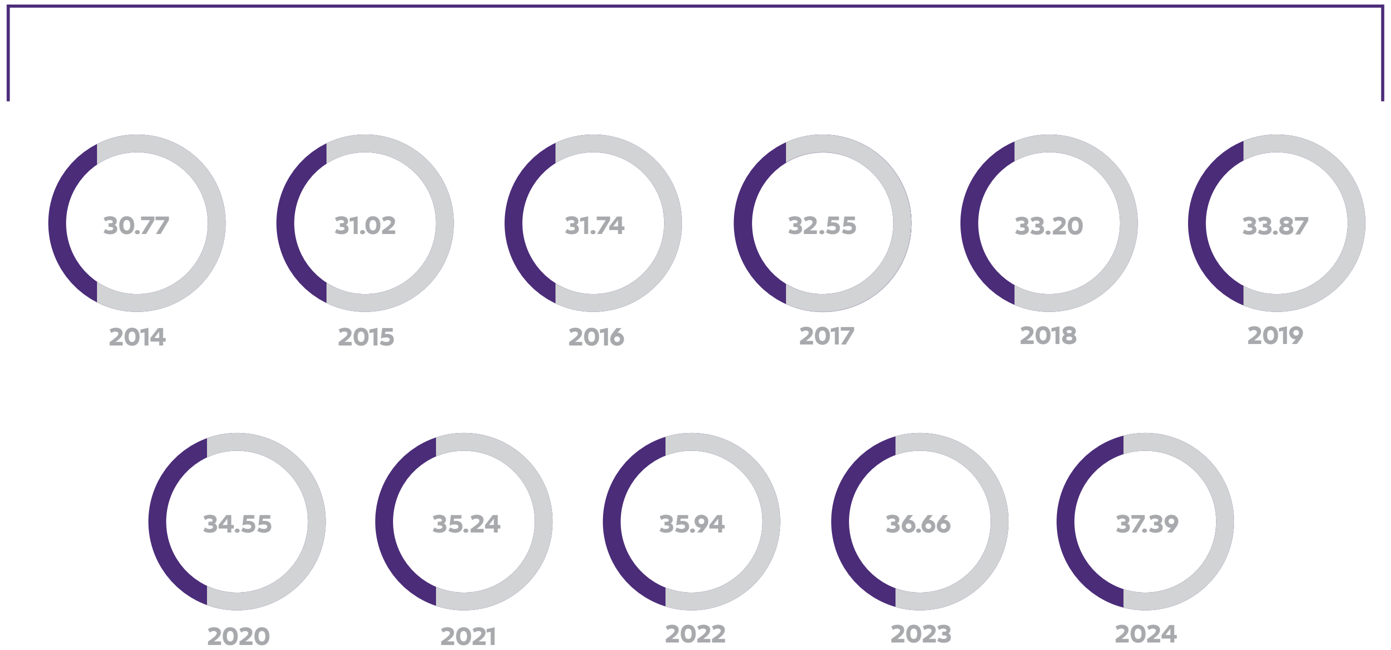
A young and growing population with circa 60% below the age of 30 and a total population expected to reach 37.4 million by 2024. The evolving labor mobility and societal norms are increasing demand for housing stock for young professionals and newly formed families.

Total Population
(Age/Gender) as of Jun 2019



Source: General Authority of statistics (2019)

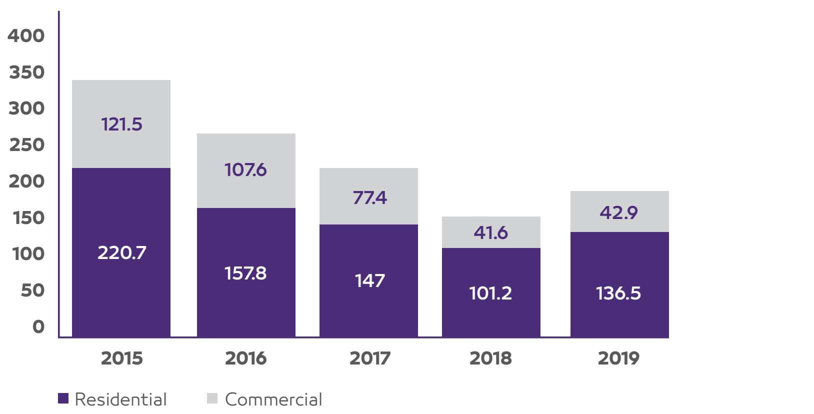
Population (mn)



Source: IMF Forecast

Against this long-term positive trend, 2019 was a turning point in the otherwise declining cyclical trend over the previous 4 years in the total value of real estate transactions.

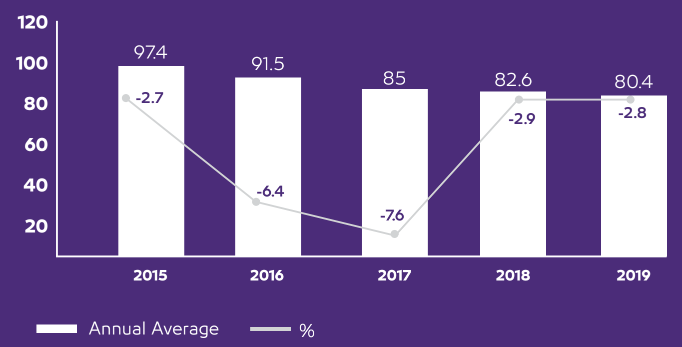
Value of Real Estate Transactions in in KSA (SAR bn)



Source: Ministry of Justice

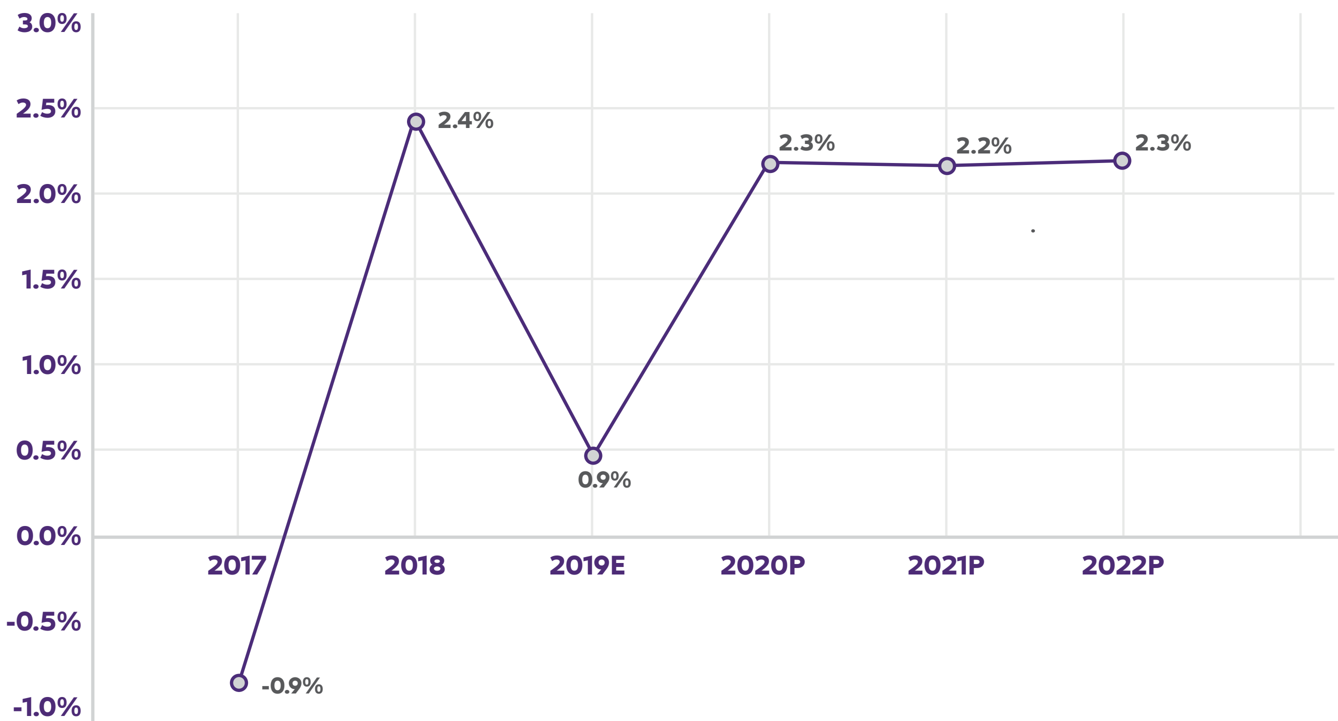
The real estate market found a floor in 2019 after being in the grips of a cyclical downturn following the Oil price correction in the fourth quarter of 2014, which drove large government budget deficit and structural economic and fiscal reforms. 2019 saw a return of volumes and an improvement in underlying pricing and margins. Although the Real Estate Price Index is looking weaker year over year, the sequential quarterly readings are showing underlying improvement with the 4th quarter of 2019 delivering 0.9% increase in price.

KSA Real Estate Price Index



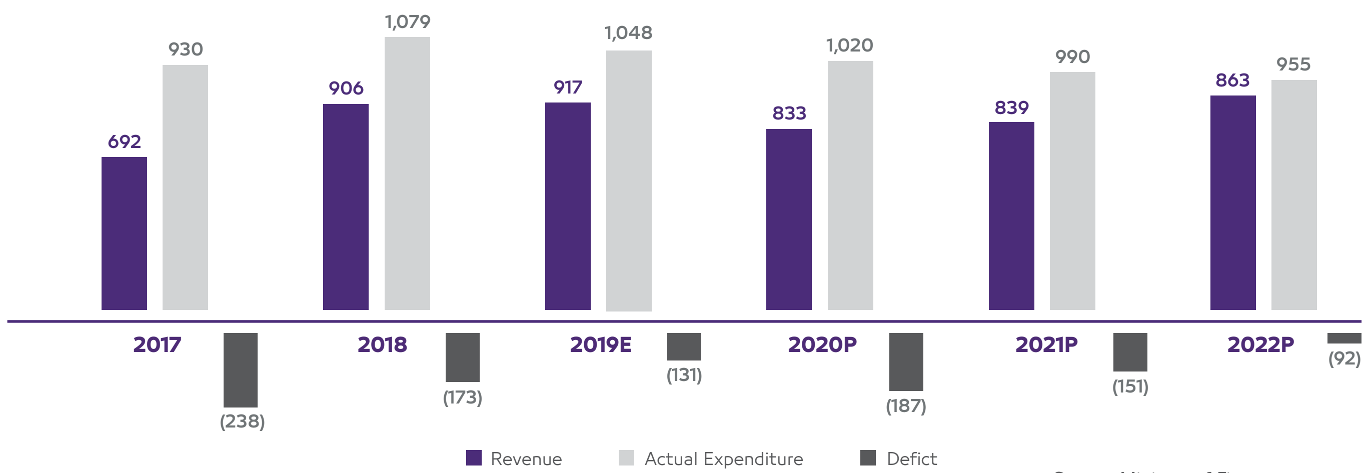
Source: General Authority of statistics

GDP Growth



Source: Ministry of Finance

Fiscal Performance (SAR Bn)



Source: Ministry of Finance

In 2019 the oil price maintained an above $60 per barrel levels supporting an expansionary budget. The terrorist attack on the oil facilities in Sep 2019 affected oil revenues and drove the drop in GDP growth rate to 0.9% in the full year. Increased economic activity coupled with improved liquidity in the housing credit market should result in positive momentum in the real estate market, as well as a return to normalized levels of GDP growth in 2020 and beyond.

The housing market in Saudi has gone through a phase of anemic supply, expanding the gap between underlying demand for housing and available supply. The Ministry of Housing estimates suggest that cumulative unmet demand stands at 1.45 Million units.

Current Home ownership penetration is at 50% for Saudis a relatively low penetration compared to countries with similarly sized economies. As Saudis pursue home ownership, the demand for housing units will expand.

However, the Government through its Ministry of housing 2020 strategic objectives as well as its 2030 Vision program, which has Housing as one of the pillars, is actively supporting the sector. The regulatory framework for both facilitating development permitting as well as introducing new structures like Off-Plan selling are improving the operating environment for developers.

Performance indicator	2020 Targets
Home ownership among Saudi Nationals Calculated as ratio of homes owned by Saudis over total number of Saudi Families	**Target:** 60% **Base:** 50% in 2016
Multiple of yearly income to the price of a unit Ratio of average price per unit (Apartment or Villa) to the average yearly income	**Target:** 5 times **Base:** 9.9 times in 2015
Total value of mortgage loans Sum of housing program loans as well as banks, financing companies, and Real Estate Development Fund loans	**Target:** SAR 502 Billion **Base:** SAR 290 Billion in 2017
Satisfaction index of participant in the different housing programs A measure of how satisfied are the participants in the housing programs including quality of units offered, ease of process, level of transparence, and duty of care	**Target:** 70% **Base:** 43% in 2017
Strength of the real estate sector fundamentals The level of strength of the real estate sector fundamentals is based on the following elements: e.g. ease of doing business, regulatory activation, property registration index, access to funding, contract executions, as well as drivers and indexes	**Target:** 85% **Base:** 43.8% in 2017
Growth rate of the real estate sector Measure of yearly growth rate in terms of home ownership in compression to the previous year	**Target:** 7% **Base:** 3.63% in 2017

Source: Housing Program/vision 2030

OUR STRATEGY

Vision: To be the Kingdom's premier and most trusted developer, delivering innovative real estate solutions for Saudis everywhere.

Mission: To create living communities and commercial environments that deliver on the evolving aspirations of the Saudi society while maximizing shareholder returns.

Corporate Strategic Pillars

Activate and monetise our substantial land bank to generate superior returns

- Dar Al Arkan has an enviable land bank with a national foot-print.
- We aim to leverage our land bank and maximize returns across cycles.

Innovation is at the core of our identity:

- In Product, delivering aspirational living environments.
- In Distribution, applying cutting edge marketing tactics.
- In Structures, providing comprehensive financial solutions

Our focus is to serve our Saudi clientele at home and abroad

Dar Al Arkan aims to be the real estate partner of choice for Saudi investors, be it for their primary residence in the Kingdom, or further afield as they seek second homes or attractive investment returns.

Maximise shareholder value

As a leading publically listed company on the Saudi Stock Exchange, Dar Al Arkan strives to deliver superior returns to its shareholders, while not losing sight of stakeholders at large.

Attract and retain top talent

- Nothing can be achieved without the work ethic and dedication of our loyal employees.
- We are strong believers in the value of the human capital for the development of both Dar al Arkan and Saudi.
- We are supportive of female inclusion in the work force and are proud of our track record.
- We offer career progression and training opportunities to our employees.

Maintain a disciplined and efficient capital structure supported by excellent relationships with the debt capital markets

- A conservatively run Balance Sheet with emphasis on liquidity and flexibility.
- Dar Al Arkan has pioneered the corporate debt capital markets in Saudi and continue its partnership with global Sukuk investors to support access to growth capital.

OUR OPERATING MODEL

Dar Al Arkan operates across the real estate value chain, leveraging a long history and deep experience in the Saudi market.

Land Transactions	Development portfolio	Asset management portfolio
- Acquire large strategic plots with a long term vision of the direction and trends of Urban development in key cities. - Add value to raw land through infrastructure works and master planning before farming out to brokers and smaller developers.	- Acquire or earmark plots for development. - Design: Concept, master plan and detailed. - Sell: Direct sales force as well as agency sales to deliver an off-plan sales model. - Build: Project manage contractors with emphasis on cost control and quality standards.	- Manage Al Qasr Mall in Riyadh our flagship retail asset. - Manage the commercial, office and retail in the mixed use Parisiana development. - Manage the residential rentals in Al Azizia Towers in Mecca.

RESIDENTIAL AND COMMERCIAL DEVELOPMENT

Dar Al-Arkan is a leader in the development of integrated master plan communities delivering mixed-use, residential, commercial and retail developments.

SHAMS AR RIYADH

Strategically located in the growing northwest of Riyadh and overlooking the picturesque Wadi Hanifa. Shams Ar Riyadh is one of the largest mixed-use development projects ever initiated in the Kingdom. Initial footprint comprised a total area of approximately five million square meters divided into five zones. After selling zone 2 which is estimated at 1.8 million square meters to SABIC for their employee housing, Dar Al Arkan is currently developing the remaining 4 zones, an area over 3.2 million square meters.

Shams Ar Riyadh targets the growing and underserved middle to upper-middle segments of the market. The project offers complete integrated living including residential, commercial, hospitality, entertainment, sporting, health care and educational components. The master plan paid particular attention to creating a harmonious interaction with the Wadi, bringing magnificent panoramic views and many public paths to enjoy this unique location.

In 2018, Shams Ar Riyadh zone 4B (Mirabilia) was launched, including 208 villa and mansion plots, in collaboration with Roberto Cavalli for interior designs. Selling directly off-plan to end buyers, under the WAFI program, by the end of 2019 circa 90% of this phase has been sold.

The project's infrastructure works are ongoing as well as the building of the show villas which are expected to be completed in the second quarter of 2020. In addition, the municipal approvals are in process to lunch future phases in 2020.

I LOVE FLORENCE, UAE

Dar Al-Arkan launched I Love Florence Tower (ILF), its first international real estate development project, in December 2017. With a Gross Development Value of SAR 817 million (USD 218 million) and comprises 454 units. The ILF tower, features bespoke apartments with luxury interiors designed by Roberto Cavalli, with water views and access on the Dubai Canal, with easy proximity to major attractions.
In 2018, off-plan sales were launched in Saudi, with encouraging results delivering 73% of total sales to Saudi investors in our home market as of end 2019. We launched 38% of total units and sold 75% of that by the end of 31 Dec 2019.

In 2019, the main works contract was awarded and construction commenced, furthermore contracts for mechanical, electrical, front and aluminum works has been awarded. As of end 2019, full excavation and foundation works as well as basement and first platform level had been completed.

SHAMS AI-AROUS

Shams Al-Arous is a master-planned community project strategically located east of downtown Jeddah, on the extension of Palestine Road, a 5 lane highway and a major commercial artery in Jeddah.

The project area approx. 863,000 sqm and comprises a number of low-rise apartment blocks (G+4-6) divided into 4 zones and complete with a retail strip to offer amenities and serve the community.

In 2019, infrastructure work had been updated and completed and revised planning works were undertaken in preparation for launching off-plan sales in 2020.

NAEEM ALJIWAR

Naeem Aljiwar, a development located in southwest Medina, within the Alharam zone boundaries. The project is on a total land area of 2.2 million square meters.

The project planning is complete and divided into plots. The company had finished the construction of 499 villas and by end of Dec 2019 69% has been sold. We are in the process of selling the remaining inventory.

PARISIANA COMMUNITY

Parisiana is Dar Al Arkan's first planned community in the Kingdom. Situated in Al-Swaidi district of Riyadh its modern, spacious layout is proving to be popular with middle-income families, Government and corporate institutions. Its location adjacent to King Fahad Road provides good access to key Government agencies and the central business district.

The project is comprised of approximately 3,500 units, apartments, villas, retail and office designated for either sales or leasing. the Parisiana Community is a leading example of master-planned communities in the Kingdom. Families enjoy the spacious urban design, parks, schools, and shops.

By the 31 Dec 2019 86% of villas and 24% of apartments marked for sale had been sold.

JUMAN

The project is located in the Eastern Province overlooking Tarout bay. It is based on the reclamation of 8.2 million square meters of semi-submerged land, based on an agreement dated 22/04/2014 with the owners. Under the terms of this agreement, Dar Al-Arkan is the development manager of the project and acquired an 18.3% stake in the land.

The project will be a mixed-use master-planned community including residential, hospitality, retail with a regional mall, offices, healthcare, entertainment, sporting and educational components.

The master plan was developed to a pre-concept stage according to the development strategy based on the market and the economic feasibility studies conducted. Discussions continue with various authorities including Ministry of Municipal and Rural Affairs (MoMRA) and Dammam Amana to obtain their feedback and guidance as we refine our designs and enter the final concept design phase.

QASR KHOZAM

Khozam Real Estate Development Company "Khozam" is a Joint Venture limited liability company, between Jeddah Development and Urban Regeneration Company (49% equity owner) and Dar Al-Arkan Projects Company (51% equity owner a fully owned subsidiary of Dar Al Arkan) and headquartered in Jeddah.

The main purpose of the Company is to develop the Qasr Khozam area and surrounding neighborhoods and is considered the largest project for regenerating and developing slum areas in Jeddah. The initiative enjoyed generous patronage from the late Custodian of the two Holy Mosques, King Abdullah bin Abdulaziz, who laid the foundation stone for this ambitious development project.

PROPERTY MANAGEMENT AND LEASING

COMPANY OVERVIEW

The priority for 2019 has been to improve overall performance, operating efficiency, marketing reach and customer service especially in Al Qasr Mall, the central asset at the heart of the leasing portfolio. A major success was attracting Majid Al Futaim Vox cinema Multiplex to the mall. A 15 screen multiplex was opened in the first quarter of 2019, in addition to a bowling alley. The cinema opening brought new visitors to the mall and considerably increased total footfall.

In parallel the food and beverage offering was enhanced to better position the mall as an entertainment destination. The following brands were added in 2019: (Chocolate Sarayi, Popeye's, Tutti Café, Karam Beirut, FireGrill, Ranosh, Subway, etc.)

Furthermore, a number of promotional events and campaigns, in partnerships with charitable organizations and community operators improved total traffic to the mall and its overall brand image.

in 2019, Asset Management amounted to SAR 142 million and represented 4% of Group revenues as compared to SAR 136 million and 2.11 % of total revenues in 2018.

Description of the portfolio of leasing assets

QASR MALL

The state-of-the-art Al Qasr Mall provides an important retail and entertainment destination for the residents of Central, Southern and Western Riyadh. With a total area of 220,000 square meters, that has family entertainment and food and beverage outlets, as well as a 15 screen cinema and a bowling alley. The Mall offers visitors a modern, spacious environment that provides a convenient location for shopping, socializing and family leisure. By the end of 2019, the occupancy rate reached 91%.

Its wide range of retail, food and entertainment includes famous brands such as: Carrefour, Etam, H&M, Mothercare, Swatch, Boots, Foot Locker, Next, Mango, Mac, Blue Age, Nayomi, Adidas, Aeropostale, American Eagle, Ardene, Beverly Hills Polo Club, Brand Bazaar, Centrepoint, Chocolate Sarayi, Kitschen, Minigood, Matalan, Ministry of health Clinic, NAHDI, Popeyes, R&B, Treasure Island, Tutti Café, VaVaVoom, Victoria's Secret, VOX Cinema, Women's secret, Calliope, Shoearena, Max, Red Tag, Coach, Shoe Express, Sun Sand & Sports, SACO, Nichi in Mark, Home Center, Hameedi.

AZIZIA TOWERS

The Azizia Towers in Mecca is located in the heart of the Azizia quarter on Prince Sultan Street, only 5.5km from the Holy Mosque and 3km from the Mashaer Mina. The Azizia Towers comprises 7 Towers, including 3 Towers at the front overlooking Prince Sultan Street each with 12 residential floors and 4 Towers at the rear, each with 11 residential floors.

Azizia Towers has a total of 5,841 square meters comprising a total built up area of 76,486 square meters, which includes 285 apartments and six showrooms with a total area of 41,720 square meters. The Towers are fully leased to King Abdullah Medical City.

PARISIANA

Parisiana leasing community is one of Dar Al Arkan's most important developments in the Kingdom. Situated in Al-Swaidi district of Riyadh its modern, spacious layout is proving to be popular with middle-income families, Government and corporate institutions. Its location adjacent to King Fahad Road provides good access to key Government agencies and the central business district. By 31 Dec 2019, 93% of units available for leasing were leased.

OUR CAPABILITIES

One of the main targets of this year was to attract and headhunt the most qualified Talents in KSA especially the Saudi Nationals. The total number of Dar Al Arkan employees as of today is 391, including 182 Saudi employees.

Anand Raheja

C.E.O

Mr. Raheja was promoted to the role of Chief Executive Officer (CEO) in June 2019. He previously held the position of Chief Financial Officer (CFO) from May 2018 till June 2019. He has more than 30 years of experience working with the largest real estate companies and accounting & auditing firms in the Middle East, US, UK and India. Mr. Raheja holds a Master's degree in Finance from New York University.

Philip Antony

C.F.O

Mr. Philip Antony has been with Dar Al-Arkan since 2008 and got promoted several times and currently holds the position of Chief Financial Officer (CFO) since June 2019. In his previous role as Director – Accounting & Financial Reporting, he led several key company initiatives, including previous sukuk issuances and syndicated financing programmes. Prior to joining Dar Al-Arkan, Mr. Antony spent 16 years in senior corporate finance and management roles with Sonata Software Ltd and Novell Inc. Mr. Antony holds a Master of Commerce degree from University of Calicut and is a Chartered Accountant from India.

Mohammed Al Ghamdi

Head of Gov. Affairs and Advisor to the Chairman of the Board

Mr. Al-Ghamdi currently holds the position of advisor to the Chairman of the Board of Directors after holding several positions within the company since 2016, most recently as Head of Gov. Affairs. His career spans 28 years during which he held many administrative and executive leadership positions in both the public and private sectors. Mr. Al Ghamdi is also a member of many executive committees in the areas of Tourism, Athletics and Real Estate Development. Mr. Al Ghamdi graduated from the College of Sharia and the College of Commerce, Department of Business Administration at Al-Imam University.

Lamia Al Refaee

Head of HR

Ms. Al Refaee joined Dar Al Arkan as the Head of HR in November 2018. She has 19 years of experience, including 13 years in the Human Resources field. She led the organizational development through designing and implementing human capital development strategies, resulting in improved work environment and superior employees' performance. Prior to joining Dar Al Arkan, Ms. Al Refaee held senior HR roles with Xenel Industries Company. She holds a Master's degree from Manchester Business School in Dubai.

Hazem Abdallah

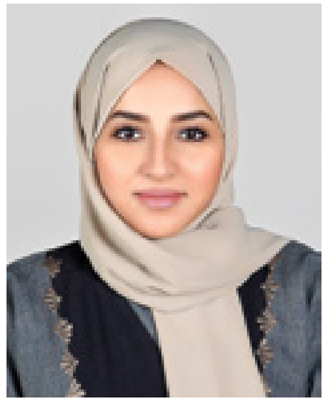
Head of Investor Relations

Mr. Abdallah is the Head of Investor Relations at Dar Al Arkan since May 2018. An international senior executive with 27 years of experience in the UK and the GCC. Mr. Abdallah spent over 16 years in capital markets, the last four with particular emphasis on Investor Relations in the Real Estate development sector in the gulf having led the Investor Relations effort at DAMAC Properties in Dubai. Mr. Abdallah started his career with P&G in the UAE before moving to London to be a Strategy consultant with Monitor Deloitte, then building the European division of Sanford C Bernstein the US Equity Research house. Mr. Abdallah holds a BA in Economics from AUB and an MBA from INSEAD.

Joseph Al Kourani

Sr. GM Sales

Mr. Al Kourani joined Dar Al Arkan in July 2017 as the Senior General Manager of Sales. Mr. Al Kourani has more than 21 years of experience in the Sales field and sales channel development in various industries across 12 different countries. Prior to joining Dar Al Arkan, he worked for 14 years as the Sales Manager – GCC at Metlife Alico, followed by 6 years as Deputy Head of Sales at Damac Real Estate. Mr. Kourani holds a Bachelor's degree in Business Administration from Balamand University in Lebanon.



Nadia AlBar

Head of sales operations

Ms. Nadia AlBar joined Dar Al Arkan as Head of sales operations in Dec 2018. She has 18 years of experience in several fields including sales, retail, operations management and customer service. Prior to joining Dar Al Arkan, Ms. AlBar spent the last 10 years with Emaar Middle East Company, most recently as senior manager in sales and leasing operations. She holds a bachelor's degree from king Abdulaziz university with first class honor.

HUMAN RESOURCES INITIATIVES
THE ORGANIZATION RESTRUCTURING

In 2019, the Human Resources Department of Dar Al Arkan undertook an organizational restructuring process for all departments in order to improve the efficiency of the workforce and the effectiveness of each department in the Company. This included reviewing the job descriptions for all employees.

Employees Engagement Survey

The HR Department has conducted an Employee Engagement Survey, in order to measure satisfaction levels, identify improvement areas and implement actions to address them, thus leading to better employee relations and retention, as well as supporting a positive working environment.

SALES AND MARKETING

Sales Events

In 2019, Dar Al Arkan organized sales and marketing events through pop-up booths at the headquarters of several government agencies and companies. These events aimed to promote the products in its various real estate projects, provide all the necessary information about them and answer all client inquiries from those agencies, which ensured the provision of adequate services to them. These agencies included:

- Saudi Wildlife Authority: 4th – 7th February 2019
- Prince Sultan Military Medical Hospital: 24th – 27th February 2019
- Saudi Ports Authority: 6th – 7th March 2019
- Human Resources Development Fund: 12th – 14th March 2019
- Agricultural Development Fund: 25th – 27th March 2019
- Imam Abdulrahman Alfaisal Hospital: 1st – 3rd April 2019
- Royal Commission for Jubail and Yanbu: 16th April 2019
- Yanbu Education Administration: 17th – 18th April 2019
- Yanbu Ports: 16th – 17th April 2019

Marketing Events

Dar Al Arkan held a number of marketing events during 2019, and participated in many of the country's most important exhibitions and conferences:

Vox Cinemas Launches at Al Qasr Mall

The largest cineplex complex in the Kingdom of Saudi Arabia – Vox Cinema Theatres – was launched in the Al Qasr Mall commercial center on March 6th, 2019, in partnership with Majid Al Futtaim Group – a leading company in the development and management of shopping malls, retail, and leisure establishments in the Middle East, Africa and Asia. It includes 15 cinemas with VOX MAX big screens designed to provide a unique experience in watching big movies, in addition to VOX KIDS – the first cinema dedicated to children's entertainment.

Marketing Events

Lead Sponsor of the Saudi Housing Finance Conference

Dar Al Arkan was a main sponsor of the Saudi Housing Finance conference, organized by the Real Estate Development Fund in cooperation with Euromoney on March 6th, 2019, in Riyadh. The conference discussed the challenges of obtaining housing finance for individuals, the role of financial institutions in stimulating the housing sector, developing the mortgage market, as well as the investment opportunities available in this field; in line with the Kingdom of Saudi Arabia's vision 2030. Dar Al Arkan participated in the panel discussion on the regulations for the housing finance sector in the Kingdom of Saudi Arabia.

Diamond sponsor of the Riyadh Real Estate Exhibition - Restatex

Dar Al Arkan was involved in the Riyadh Real Estate, Housing & Urban Development Exhibition from the 22nd – 25th April 2019, as the exclusive diamond sponsor. It reviewed its most prominent real estate projects and presented a number of its residential products ready for immediate delivery, in addition to the unique real estate and housing solutions that it is currently providing, as well as future projects in different cities of the Kingdom of Saudi Arabia.

Lead Sponsor of the Euromoney Saudi Arabia Conference

Dar Al Arkan was the main sponsor of the Saudi Euromoney conference held from the 18th – 19th September 2019, one of the most prominent financial conferences in the Middle East – which highlighted the Kingdom of Saudi Arabia's position as the largest financial market in the Middle East, and many of the changes that the finance sector of the Kingdom has witnessed. The conference also discussed the ways and means to enhance the growth and development of the financial sector. Dar Al Arkan participated in the panel discussion "Real Estate in the Kingdom of Saudi Arabia", which reviewed the challenges facing the real estate market in the country, the flow of foreign investment, and the real estate financing market.

Platinum Sponsor of the Real Estate Finance and Investment Conference

Dar Al Arkan participated in the Real Estate Finance and Investment Exhibition in the Kingdom of Saudi Arabia as a main sponsor on November 19th, 2019, with the participation of many specialists in the finance and real estate development sector of the country. During the conference, the real estate development prospects in the Kingdom of Saudi Arabia were reviewed, and current and future strategies were formulated to ensure housing provision and the importance of the real estate refinancing market in achieving long-term housing goals in the Kingdom of Saudi Arabia. The Chairman of Dar Al Arkan participated in a discussion on the developments of the Saudi real estate market, as did the CEO in a dialogue session on the financing structures available for the Saudi real estate market.

Real Estate Brokers Meeting of Shams Ar Riyadh Project

Dar Al Arkan held a meeting with brokers at the Shams Ar Riyadh project sales center on December 15th, 2019, in the presence of a large number of brokers. During the meeting, marketing opportunities for available real estate products provided by Dar Al Arkan was discussed.

Real Estate Developers Meeting in Shams Ar Riyadh project

In the presence of heads and officials of real estate development companies, Dar Al Arkan held a meeting for real estate developers, in the sales center of the Shams Ar Riyadh project on December 18th, 2019. During the meeting, Shams Ar Riyadh, and opportunities for real estate developers were reviewed, in addition to discussing proposed sponsorship programs with real estate developers on joint real estate projects and products.

25th Anniversary Celebration Event

On November 26th, Dar Al Arkan celebrated the 25th anniversary of its founding, at the Nayyara Conference Hall in Riyadh - in the presence of officials, businessmen, shareholders and clients of the company. During the ceremony, they reviewed the achievements of Dar Al Arkan over the past 25 years, as well as the new direction for the company in the coming years.

Awards

The Best Real Estate Company in Saudi Arabia, 2018 - from Arabian Business on January 29th, 2019.

The Best Real Estate Developer in the Kingdom of Saudi Arabia, 2018 - from Restatex on April 22nd, 2019.

Social Responsibility

The Saudi Universities Initiative, "developing Saudi skills and competencies in the real estate sector".

Dar Al Arkan has launched an initiative directed at students of Saudi universities, with an aim to develop skills and raise the capabilities of Saudis in the real estate sector. The initiative has attracted a lot of both male and female students interested in this field, and has now been implemented in a number of Saudi universities, including:

- Prince Sultan University: 25th February 2019
- Imam Muhammad Ibn Saud Islamic University: 11th March 2019
- Arab Open University in Riyadh: 25th March 2019
- Arab Open University in Jeddah: 10th April 2019

Ramadan meeting of the Autistic Families Association

Dar Al Arkan hosted a Ramadan meeting for the Autistic Families Association on May 15th, 2019, at the headquarters of the company in Riyadh. The meeting was hosted by Her Highness Princess Samira Al-Faisal and members of the association, during which the programs and efforts implemented by the association were reviewed.

Ramadan Iftar for Harakia Association

Dar Al Arkan organized a Ramadan Iftar for the Adult Motor Disability Association "Harakia" on May 18th, 2019, at the Marriott Hotel in Riyadh, in the presence of the President and members of the association's board of directors, and a number of the association's beneficiaries. The services and programs provided by the association to its beneficiaries were reviewed during the meeting, in addition to discussing future collaboration opportunities.

Information Systems

Dar Al Arkan IT system are built to comply with local and international best practices, establishing effective internal controls that produce accurate and transparent information to allow management to make informed decisions.

Dar Al Arkan continuously invest in information technology solutions to promote Automation, Mobility, security, connectivity and latest technology adoption to enhance the business operations.

2019 saw the implementation of:

- Implemented web based digital transformation solutions to drive business to enhance sales, leasing and operations. Initiated implementation of unified platform to enable business through social media channels and mobile platform.
- CRM solution addressing the completed Lead management cycle automation, effective customer support management with call center integration with Dashboard reporting, Marketing and campaign management automation.
- Optimized, secure IT infrastructure addressing scalability, reliability and long term retention requirements
- Hardened the IT security posture of the organization by implementing proactive monitoring and management solutions to ensure mitigation of cyber security threats & vulnerabilities addressing the high availability, data protection, compliance and governance requirements.
- Enhanced the backup and archiving capabilities to address the governance and compliance requirements of the regulatory authority.
- Implemented the advanced CCTV surveillance solutions at our company properties to comply with the new government requirements.

FINANCIAL REVIEW

Message of the C.F.O

"We closed our 2019 Balance Sheet with SAR 3.95 billion in cash and cash equivalents."

Philip Antony
Chief Financial Officer

At Dar Al Arkan Real Estate Development Company we target shareholder value enhancement through continuous asset and capital efficiency improvements. In 2019, we continued to drive our financial strategy in support of the corporate objective to develop and deliver innovative and competitive real estate solutions to our customers. Our resource management and funding strategy ensure that Dar Al Arkan has the required resources to successfully implement its operating model across the real estate value chain; from land acquisition, regulatory approvals, infrastructure development, mixed-use residential and commercial master planned developments or property management and leasing.

2019 was a successful year from both business transformation and resource mobilization standpoints. During the year Dar Al Arkan raised SAR 3.1 billion of long term cost effective funding from the local and international Debt Capital Markets to fuel its planned growth.

The funding strategy remained prudent by ensuring availability of long and medium term resources at reasonable costs matching with our projects' investment cycle of three or five years. Furthermore, with a strong liquidity position, Dar Al Arkan opted to retire the maturing Sukuk IV from cash reserves to the tune of SAR 1.5 billion, thus signaling to the markets the Company's confidence in its financial position and outlook.

The Company continues to strengthen its relationship with the Global Debt Capital markets and 2019 witnessed the issuance of the 10th Sukuk since 2007. The Company raised SAR 2.250 billion in an oversubscribed Sukuk issue maturing in 2025. We also preserved our diversity in funding sources with local and regional bilateral bank facilities amounting to 23% of total debt.
We believe that 2019 was a consolidation year in the Saudi real estate sector that was coming out of a four-year downturn. The residential real estate segment, in particular, is leading the recovery with growth in both volumes and values of transactions as well as a rebound in the real estate price index. These trends have had a positive impact on our gross margins, which saw consistent growth sequentially during the year.

Guided by our very experienced board of directors, we recognize that the current investment cycle is favourable for the prudent deployment of capital in our areas of strategic priorities; replenishing our investments in land, as well as accelerating our efforts to develop our current projects. The year 2019 was more active and positive with the starting of the construction of ILFT, infrastructure development at Shams Ar Riyadh and successfully replenished our land portfolio to become a net investor with transactions totaling SAR 5.4 billion. We closed our 2019 Balance Sheet with SAR 3.95 billion in cash and cash equivalents; SAR 0.95 billion decrease over the previous year.

Encouraged by the economic stabilization, and the Governmental support, led by the Ministry of Housing, for the real estate sector, we believe we are well positioned to navigate the next phase of growth as the emerging trends become more concrete. We ended 2019 with a strong and liquid balance sheet, and with a more sanguine macroeconomic outlook for 2020 and hopefully the years ahead, we are confident in maintaining our leadership position as a partner of choice for the Saudi real estate investor.

Business activities

Dar Al-Arkan Real Estate Development Company is a Saudi Joint Stock Company which started its business in 1994 under Commercial Registration No. 1010160195 and converted to a joint stock Company in 2005 under Ministerial Decree No. 1021 dated 10/06/1426 HD, corresponding to 17/07/2005.

The Company operates mainly in the Kingdom of Saudi Arabia (KSA), and its main activity is real estate development. The Company established many limited liability companies in order to facilitate the achievement of its strategic objectives of diversifying the investment portfolio and its income sources.

The company's subsidiaries

Company Name	Capital (SAR)	Principal Activity	Country of Incorporation	Ownership %	Commercial Registration	Entity Type
Dar Al Arkan Properties Company – (previously known as Dar Al Osool Company)	5,000,000,000	Development and acquisition of the commercial and residential properties. Management, operations and maintenance of residential and commercial buildings and public facilities	Kingdom Of Saudi Arabia	100%	1010254063	Closed Joint Stock Company
Dar Al-Arkan Commercial Investment Company	500,000	Purchase and acquisition, lease of real estate investments	Kingdom Of Saudi Arabia	100%	1010247585	Limited Liability Company
Dar Al-Arkan Sukuk Company	500,000	Real estate investment and development	Kingdom Of Saudi Arabia	100%	1010256421	Limited Liability Company
Sukuk Al-Arkan Company	500,000	Management, maintenance and development of real estate and purchase of land and general contracting	Kingdom Of Saudi Arabia	100%	1010274407	Limited Liability Company
Dar Sukuk International Company	500,000	Real Estate investments and development	Kingdom Of Saudi Arabia	100%	1010275448	Limited Liability Company
Dar Al-Arkan Real Estate Investment Company	100,000	Real Estate investments and developments, leasing and property management	Kingdom Of Saudi Arabia	100%	1010521509	Limited Liability Company
Maaqel Real Estate Company	500,000	Real Estate, leasing and property management	Kingdom Of Saudi Arabia	100%	1010600708	Limited Liability Company
Bawadi For Real Estate Company	500,000	General Construction, purchase & sale, acquisition, leasing and property management	Kingdom Of Saudi Arabia	100%	1010600710	Limited Liability Company
Al-Enteshar Real Estate Company	500,000	Sale & Purchase, acquisition, leasing of real estate and property management	Kingdom Of Saudi Arabia	100%	1010600709	Limited Liability Company
Sawaed Real Estate Company	500,000	Sale & Purchase, acquisition, leasing of real estate and property management	Kingdom Of Saudi Arabia	100%	1010600711	Limited Liability Company

Investments in subsidiary companies as defined by the rules of the Capital Market Authority ("CMA")

Company Name	Capital (SAR)	Principal Activity	Country of Incorporation	Ownership %	Commercial Registration	Entity Type
Khozam Real Estate Development Company	540,287,280	Real estate development (development of Qasr Khozam Project)	Kingdom Of Saudi Arabia	51%	4030193909	Limited Liability Company
Alkhair Capital	1,000,000,000	Undertaking underwriting, management, arrangement and financial advisory services (Except for the implementation of marginal deals)	Kingdom Of Saudi Arabia	42.2%	1010264915	Closed Joint Stock Company

Description of company's activities and contribution to revenues

Most of the Company's operations are carried out within the Kingdom of Saudi Arabia. I Love Florence Tower (ILFT) is the Company's flagship project outside KSA located in Dubai. During the year, the Company did not recognize revenue in its income statement from ILFT as of 31 December 2019 since it has not completed the milestone as per IFRS 15. Dar Al-Arkan operates as three distinct divisions, as follows:

Properties Development

Properties development which includes:

- Land Projects: Basic infrastructure development of undeveloped land
- Residential and Commercial Projects: the development of residential and commercial projects and the sale of units on such projects.
- Investment in land: it represents the share of company's investment in jointly owned properties.

During the fiscal year 2019 this division accounted for SAR 3,350 million, representing 95.94% of the Company's total revenues, as compared to SAR 6,277 million, or 97.89% in 2018.

Off-plan sales of the properties in KSA and Dubai are in progress.

Asset management

Property Management and Leasing is Dar Al-Arkan's second largest division. Leasing and management of properties that the Group has retained as rental properties including commercial and residential units on its Master-Planned Communities for generating recurring revenues. In 2019, revenues generated in Asset Management amounted to SAR 142 million and represented 4.06% of Group revenues as compared to SAR 136 million and 2.11 % of total revenues in 2018.

Investments

management believes are complementary to the Group's real estate development operations. During 2019, these investment activities were not significant to the Company's net profits as their contribution accounted for only 2.59% of Dar Al-Arkan's net profit.

During 2019, no other material elements impacted the Company's net income. However, the Company earned SAR 133 million representing 43.75% of net income as profit from short term Islamic Deposits.

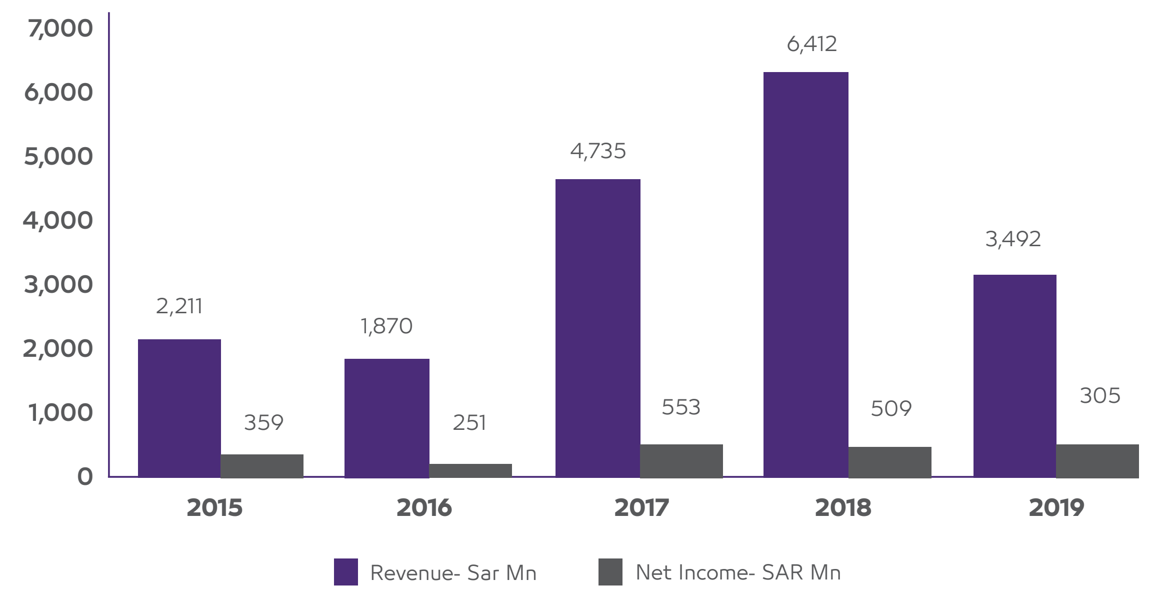
FINANCIAL HIGHLIGHTS

Income statement for the fiscal years 2015 to 2019

The following table illustrates the main income statement items for the last five years. This should be read in conjunction with the audited consolidated financial statements and accompanying notes.

Item (in SAR '000s)	2015	2016	2017	2018	2019
Revenues	2,211,349	1,870,229	4,734,682	6,412,265	3,491,856
Cost of revenue	(1,228,117)	(1,078,286)	(3,620,672)	(5,355,114)	(2,667,416)
Gross profit	983,232	791,943	1,114,010	1,057,151	824,440
Principal activities expenses	(207,831)	(160,028)	(162,002)	(168,942)	(174,787)
Net income from principal activities	775,401	631,915	952,008	888,209	649,653
Financing expense	(420,794)	(385,984)	(441,523)	(511,652)	(478,418)
Net other Income	13,875	12,846	57,326	145,298	141,154
Net income before Zakat provisions	368,482	258,777	567,811	521,855	312,389
Zakat provisions	(9,325)	(7,943)	(14,443)	(13,046)	(7,799)
Net income	359,157	250,834	553,368	508,809	304,590
Earnings per share	0.33	0.23	0.51	0.47	0.28

Total revenue and net income changes from 2015 to 2019



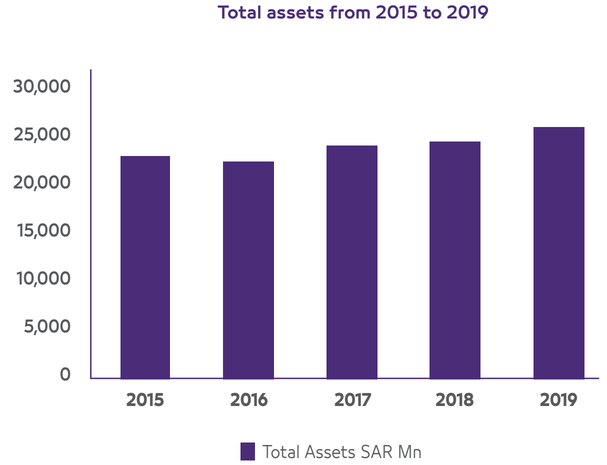
The balance sheet for the fiscal years 2015 to 2019

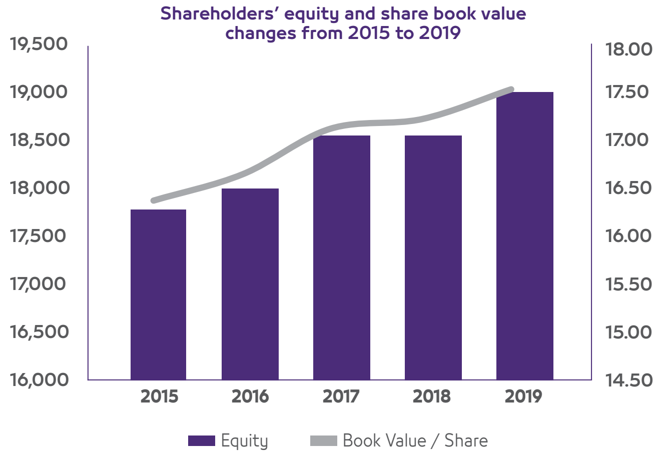
The following table illustrates the main balance sheet items for the last five years. This should be read in conjunction with the audited consolidated financial statements and accompanying notes.

Item (in SAR '000s)	2015	2016	2017	2018	2019
Current Asset	4,361,742	3,482,391	7,315,666	9,993,697	8,266,496
Non-current Asset	20,875,085	20,937,252	18,854,714	16,670,535	19,702,968
Fixed Asset	68,416	66,131	70,925	83,085	79,765
Total Asset	25,305,243	24,485,774	26,241,305	26,747,317	28,049,229
Current Liabilities	2,596,980	1,392,210	2,765,460	3,291,806	1,691,387
Non-Current Liabilities	4,781,590	4,916,057	4,742,295	4,750,178	7,348,354
Total Liabilities	7,378,570	6,308,267	7,507,755	8,041,984	9,039,741
Capital	10,800,000	10,800,000	10,800,000	10,800,000	10,800,000
Statutory reserve	978,300	1,003,383	1,058,720	1,109,601	1,140,016
Retained earnings	6,148,373	6,374,124	6,874,830	6,795,732	7,069,472
Total shareholders' Equity*	17,926,673	18,177,507	18,733,550	18,705,333	19,009,488
Total Liabilities and Shareholders' Equity	25,305,243	24,485,774	26,241,305	26,747,317	28,049,229
Book value per share*	16.59	16.83	17.35	17.32	17.60

*Book value per share is calculated by dividing the total shareholders' equity by total number of outstanding shares at the end of each fiscal year.

Note: The Company discloses that for commercial and practical reasons, it registers some of its real estate assets under the name of representatives or agents, in return for official documents against them evidencing the Company's ownership of these assets. This procedure is adopted by some local Saudi banks and companies. However, the Company only undertook this course of action following legal consultation that assures the soundness of this practice, which preserves the Company's shareholders' rights.





Geographical analysis of company revenue

Location (in SAR '000s)	Development Properties	Lease	Residential Developments	Total
Western-Region	-	30,916	82,740	113,656
Central Region	-	110,726	58,295	169,021
Eastern	-	-	-	-
Investment	3,209,179	-	-	3,209,179
Total	**3,209,179**	**141,642**	**141,035**	**3,491,856**

The Company relies on diversification of its revenue from leasing of properties, sale of investments in lands and properties within and outside of Kingdome of Saudi Arabia. It is important to note that significant portion of revenue derives from the sale of investment, which are not geographically based investments.

Results of operations

The following table compares the results of operations for 2019 and 2018:

Item (in SAR '000s)	2018	2019	Change	Change%
Revenues	6,412,265	3,491,856	(2,920,409)	-45.54%
Cost of revenue	(5,355,114)	(2,667,416)	(2,687,700)	-50.19%
Gross Profit	1,057,151	824,440	(232,709)	-22.01%
Principal activities expenses	(168,942)	(174,787)	5,845	3.46%
Net income from principal activities	888,209	649,653	(238,554)	-26.86%
Financing expense	(511,652)	(478,418)	(33,234)	-6.50%
Net other Income	145,298	141,154	(4,144)	-2.85%
Net Income before Zakat provisions	521,855	312,389	(209,465)	-40.14%
Zakat provision	(13,046)	(7,799)	(5,247)	-40.22%
Net income	508,809	304,590	(204,218)	-40.14%
Earnings Per Share	0.47	0.28	-0.19	-40.43%

Revenues

Total revenues were SAR 3,492 million in 2019, compared to SAR 6,412 million in 2018, representing a decrease of 45.54%. The decrease is mainly attributable to decrease in land sales worth 3,209 million against 6,252 million in 2018. Though there was an increase in sale of residential properties of SAR 142 million against SAR 25 million in 2018.

Rental revenues increased by 4.32% to reach 142 million during 2019 compared to SAR 136 million in 2018 due to slightly better occupancy of the Company's residential and commercial properties assigned for lease.

Cost of Revenue

Cost of revenue accounted for SAR 2,667 million in 2019 representing 76.39% of total revenues compared to SAR 5,355 million in 2018 representing 83.51% of total revenues. The decrease is mainly due to the higher gross margins earned in land sales revenue in 2019 compared to 2018.

Selling and general administrative expenses

Selling and general administrative expenses were SAR 175 million in 2019 compared to SAR 169 million in 2018, representing a marginal increase of 3.46%. The increase is primarily due to increase in depreciation and selling & marketing activities.

Financing charges

Net financing charges were SAR 478 million in 2019 as compared to SAR 512 million in 2018, representing a decrease of 6.50% amounting to SAR 33 million. This decrease is primarily attributable to the repayment of sukuk of SAR 1.50 billion (US$ 400 million) in May 2019.

Net other income

Net other income was SAR 141 million in 2019 compared to SAR 145 million in 2018. The decrease is primarily due to decrease in income from associates during 2019.

Net income

Net income in 2019 was SAR 305 million compared to SAR 509 million in 2018. Earnings per share were SAR 0.28 in 2019 as compared to SAR 0.47 in 2018. In conclusion, the decrease in net income was driven by lower sales volume of land despite an increase of 7.1% in total gross margin.

Liquidity and capital resources

As of 31 December 2019, the Company had cash and cash equivalents of SAR 3,950 million as compared to SAR 4,903 million as at 31 December 2018.

Cash flow

The following table sets out the Company's cash flows for the financial periods 2017 to 2019:

Item (in SAR '000s)	2017	2018	2019
Funds (used in)/ from Operating Activities	1,437	2,160	(1,743)
Funds (used in)/ from Investing Activities	(10)	(21)	(330)
Funds from/ (used in) Financing Activities	1,151	(396)	1,119

Net cash used in operations was SAR 1,743 million in 2019 compared to net cash generated of SAR 2,160 million in 2018. The increase in cash out flow is primarily related to cash used in replenishment of development properties and lower revenue.

Additional investment in associates have primarily led to an overall outflow of cash in investing activities of SAR 330 million in 2019 as compared to SAR 21 million in 2018.

Net cash from financing activities of SAR 1,119 million was primarily due to issuance of sukuk of SAR 2,250 and murabaha of SAR 800 million despite of repayment of sukuk of SAR 1,500 million and murabaha of SAR 381 million during the year.

Projects and Investment Expenditures

The Company's priorities for expenditure on projects include building integrated residential developments and developing of existing lands. During 2019, the Company spent SAR 5,355 million primarily on replenishing the development properties & development of land and residential properties.

DEBT PROGRAM

Financing strategy

Dar Al-Arkan's financial strategy primarily focused on matching its project investment cycle of three to five years with the maturity profile of its funding. The company continues to diversify its sources of funding to avoid any dependency on any specific source. The company has successfully implemented its funding strategy, which is evident from the issuance of a series of local and international Shariah-compliant Sukuks. Since 2007 the company has issued 10 Sukuks.

Total funds raised from Sukuk amounted to SAR 18.75 billion of which SAR 12.75 billion has already been repaid at the end of 2019, whereas the remaining SAR 6.00 billion maturity is spread till 2025. Pursuant to its diversification strategy, the company has successfully established good relationships with local, regional and international banks where it has achieved medium and long term financing mostly through Islamic Murabaha or Ijarah facilities for general corporate purposes. The total outstanding amount at the end of 2019 was SAR 1.8 billion.

The ratio of International Islamic Sukuks to total financing amount at the end of 2019 was approximately 77%, whereas the Murabahas and Ijaras with local and regional banks were 23%. In future, the Company's financing strategy will continue to focus on further diversifying its sources of funding including acquiring project specific financing from local and regional banks, as well as exploring other International Sukuk markets. In addition, the company started selling off-plan which is another source of funding directly from customers. The Company has also built up a portfolio of rental properties, where these income-generating assets can be offered as security for loans from financial institutions. Given the excellent track record, it will continue maintaining this relationship by accessing the domestic and international capital markets.

Indebtedness

All financing taken by the Company is Shariah-compliant and follow the structures of Ijarah and Murabaha transaction. Below is a description of the repayments and outstanding debts at the end of 2019.

Indebtedness details & decrease in financing at the end of 2019

During 2019, the Company raised new Sukuk financing of SAR 2.25 billion. The Company also successfully repaid SAR 1,500 million of the sixth Sukuk matured on May 2019. It also raised new Murabaha facility from local Bank of SAR 800 million and repaid some of the local bilateral Murabaha facilities amounting to SAR 381 million.

Bilateral Islamic Facilities	Settlement	Original Amount	Starting Date	Opening Balance	Addition During 2019	Paid During 2019	Closing Balance	Maturity
Murabaha: Local Bank Muscat	Quarterly settlement	175	26-Mar-15	113	-	17	96	30-Sep-22
Murabaha: Local Bank Muscat	Bullet	400	14-Dec-16	400	-	-	400	14-May-23
Murabaha: Local Bank Alinma	Quarterly settlement from Q2 2016	300	11-Jun-15	257	-	15	242	31-May-27
Murabaha: Local Bank Saudi Investment Bank	Half yearly settlement from Q4 2019	800	11-Jun-19	-	800	21	780	11-Jun-29
Ijarah: Syndicated Bilateral with group of banks	Quarterly settlement	1,427	11-Jul-15	643	-	328	315	31-Jul-20
Gross Total		**3,102**		**1,413**	**800**	**381**	**1,832**	

The ratio of gross debt to capitalization stood at 29.2% at the end of 2019. The closing cash balance decreased to SAR 3.95 billion at the end of 2019 compared to SAR 4.90 billion at the end of 2018. The decrease was mainly due to investment in development properties of SAR 5.4 billion.

Summary of the Murabaha and Sukuk due maturities

Maturity	SAR millions		
	Outstanding balance	Murabaha	Sukuk
2020	411	411	-
2021	98	98	-
2022	2,041	166	1,875
2023	2,385	510	1,875
2024 onwards	2,897	647	2,250
Total	7,832	1,832	6,000

Statement of payments due

Item	2017 (Thousands)	2018 (Thousands)	2019 (Thousands)
Payables	173,352	440,472	270,045
Accrued expenses	89,730	121,480	147,782
Indemnity	21,961	19,011	21,614
Dividend payable	35,350	35,443	35,423
Others	46,180	99,098	156,132
Total	366,573	715,504	630,996

Preparation of IFRS

In accordance with the compliance requirements of CMA and SOCPA, the Company follows International Financial Reporting Standards to report its statutory financials from 01 January 2017.

RELATED PARTY TRANSACTIONS

During 2019, the company entered into transactions with related parties. The company followed the same procedures as with other non-related parties. These transactions are not limited to certain duration and are presented in the Annual General Meeting (AGM) to obtain the required approvals for the current year and the coming one. Following is a brief of these transactions:

Saudi Home Loans "SHL"

In the ordinary course of business, the company enters into transactions with Saudi Home Loans "SHL". SHL is a related party and the company owns a 15% equity stake equivalent to 15 million shares out of 100 million issued shares. The common Board members between SHL and Dar Al-Arkan are namely; Mr. Yousef Bin Abdullah Al Shelash, and Mr. Abdullatif Bin Abdullah Al Shelash (until June 22 2019). These transactions were meant for financing Dar Al-Arkan's customers to buy homes. The choice of SHL as a home loan provider is at the discretion of the customer. During 2019, there were sales of SAR 23.6 million which were paid off by SHL during the year and no outstanding balance to be paid or settled with this related party. This transaction was approved during the AGM on June 20 2019.

Khozam Real Estate Development Company (KDC)

Khozam Real Estate Development Company (KDC) is a related party as the company has 51% equity holding equivalent to 27,554,651 shares out of total equity of 54,028,728 shares and also has common members in Board of Managers who are in the Board of Directors of Dar Al-Arkan. The common management committee members are Mr. Abdullatif Bin Abdullah Al Shelash (until June 22 2019). The management of KDC requested that it invests its excess cash balance (opening balance as at beginning of 2019 amounted to SAR 188.86 million) with Dar Al-Arkan at a nominal interest repayable on demand to facilitate its working capital needs. During 2019 the company repaid SAR 0.425 million of this amount in advance; together with interest of SAR 0.96 million for its operational requirements. The closing balance as at 31 December 2019 was SAR 189.40 million. This transaction was approved during the AGM on June 20 2019 and the company can repay the amount and close the balance anytime.

Bank Alkhair

Bank Alkhair B.S.C is a related party as it has common Board Members with Dar Al-Arkan. The common Board Members are Mr. Yousef Bin Abdullah Al Shelash, Mr. Majed Bin Abdul Rahman Al Qasim and Mr. Abdullatif Bin Abdullah Al Shelash (Until June 22 2019). In specific capital market transactions, the company enlisted Bank Alkhair to provide general financial advisory work on Shariah-compliance advice and management of the international Sukuk issuances. During 2019, there were no transactions and no outstanding balance to be paid or settled with this related party.

Alkhair Capital

Alkhair Capital is a related party as the company owns 42.2% equity stake equivalent to 42,200,000 shares out of total issued shares of 1 billion, and has common Board Members with Dar Al-Arkan.The Group had originally invested SAR 102 million representing 34% of the paid up capital of Alkhair Capital. During the year, Alkhair Capital increased the paid up capital by additional SAR 700 million. The Group has acquired additional capital by investing SAR 320 million and accordingly original investment of SAR 102 million has been revised to SAR 422 million. The common Board Members are Mr. Yousef Bin Abdullah Al Shelash, Mr. Abdullatif Bin Abdullah Al Shelash (until June 22 2019) and Mr. Majed Bin Abdul Rahman Al Qasim. Alkhair Capital Saudia and AlKhair Capital Dubai were engaged to provide secondment services to international subsidiaries, general financial advices, representing and filing the documents on behalf of the company with the Capital Market Authority (CMA), Tadawul and other statutory bodies. Also provides Shariah compliance reviews and management support for the international Sukuk issuances, the partial pre-closure of the Sukuk and leasing/ subleasing of properties. During 2019, SAR 2.3 million was paid to AlKhair Capital Dubai in full towards expenses charged SAR 2.3 million for the year. This transaction was approved during the AGM on June 20 2019. During 2019, there were no other transactions and no outstanding balance to be paid or settled with Alkhair Capital Saudia.

Dividend Policy

Article (45) of the Company's Articles of Association stipulates that:
The Company's net profits shall be distributed after deduction of all general expenses and other expenses including Zakat in the following manner:

- Ten percent (10%) of net profits shall be set aside to build up a statutory reserve. The Ordinary General Assembly may stop or reduce the rate of this deduction for reserve if the statutory reserve has reached an amount equal to thirty percent (30%) of the paid capital.
- The Ordinary General Assembly may, according to the recommendation of the BoD, set aside an equal rate of net profits to build up an agreed-upon reserve to be allotted for certain purpose(s).
- The Ordinary General Assembly may resolve to build up other reserves to the extent that benefits the company or allows for the distribution of fixed profits to shareholders. The Ordinary General Assembly may also cut from the net profits certain amounts to be used for the establishment of social institutions for company employees or for assisting the existing institutions.
- The Ordinary General Assembly may decide, according to the recommendation of the BoD, to distribute from the remainder an amount of 1% of the paid capital to the shareholders.
- The Ordinary General Assembly may decide, according to the recommendation of the BoD, to distribute the remainder to the shareholders as additional share of profits at the rate recommended by the BoD and approved by the General Assembly.
- The company may make periodical distribution of profits to its shareholders: half-yearly or quarterly in accordance with the rules and instructions issued by the Capital Market Authority. This is done in the light of a delegation issued by the Ordinary General Assembly to the BoD to distribute profits at stages. This delegation shall be annually renewed.

INVESTOR RELATIONS AND SHAREHOLDER INFORMATION REVIEW

Stock Performance

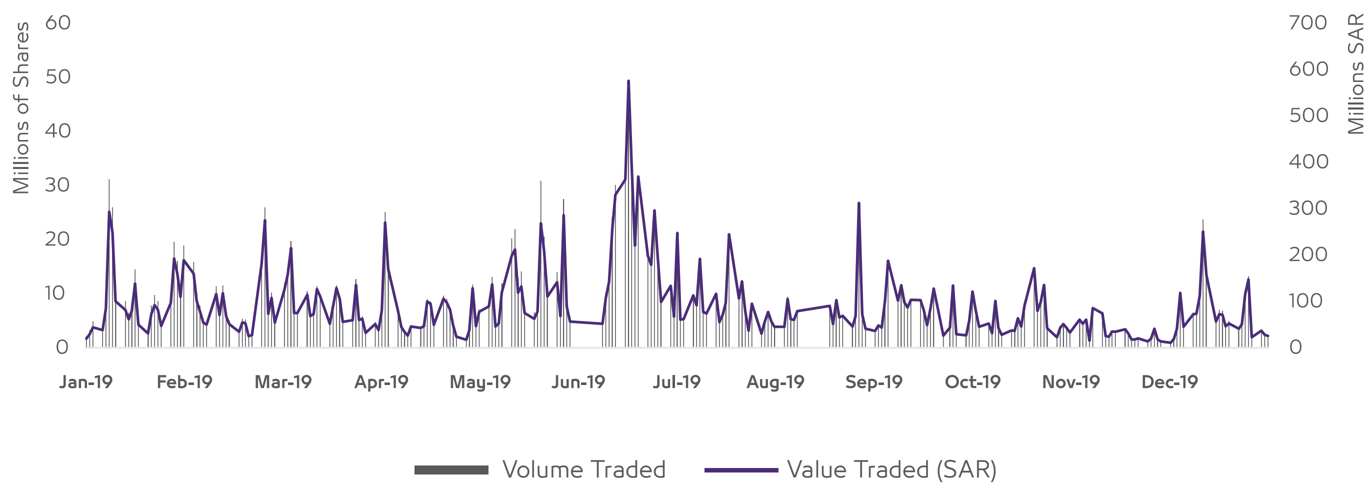
Dar Al Arkan equity shares are listed on the Saudi Stock Exchange (Tadawul). As at 31st December 2019, Dar Al Arkan had SAR 10,800 million in authorized capital and issued 1,080 million shares.

Share data performance (SAR)

End of the Year (31 Dec 2019)	11.00	52 Weeks Low (14 May 2019)	8.85
Year Ago	9.02	Absolute performance	21.95%
3 Year Ago	6.16	Annual Relative performance vs Sector	24.83%
52 Weeks High (18 Jun 2019)	12.4	Annual Relative perfoamcne vs TASI	14.76%

Dar Al Arkan Share Price (SAR)

Dar Al Arkan Volume & Value Traded



Investor Communication

At Dar Al Arkan, Investor Relations takes the lead in communicating with the financial community, in particular, institutional shareholders, retail investors and covering analysts on the sell-side both for the equity and debt. Anchored in the regulatory requirements of the Capital Markets Authority (CMA) and international best practice, the IR department strives to provide optimal disclosures and transparency to shareholders through regular and periodic contact.

In 2019, Dar Al Arkan conducted a number of investor events over and above the regulatory requirement of issuing quarterly results and hosting the corresponding Conference Call. These events included participation in broker conferences, deal and non-deal road shows, as well as ad-hoc on demand meetings and calls with both retail, institutional investors and sell-side analysts. Total investor touch points reached 585* in 2019.

Investor Relations Activities

Category	Number
Conference attended	7
Non deal road shows	4
Deal road shows - Sukuk	5
Institutional meetings	88
Institutional inversors met	284
Retail Investors contacts	205
Institutional conference calls	96

*Number of investor touch: 284+205+96=585

In addition, the IR Department organizes the General Assembly meeting which was held on Jun 20, 2019. The IR department maintained the IR section of the corporate website and the IR App for Dar Al Arkan to offer investors multiple channels to access up to date financial information and stock price data.

Investor Information

An integral part of the IR department's role is to offer the executive management and the board of director's regular feedback from investors. The company requests for shareholder information from Edda Center to compile and distribute regular trading and shareholdings reports.
Below tables are information about investors in terms of type and nationality of investors as of 31 Dec 2019:

Type of investors

Category	No of Share	%	Count
Institutions	257,339,889	23.83%	328
Retail	822,660,111	76.17%	84,308
Total	**1,080,000,000**	**100%**	**84,636**

Nationality of investors

Nationality	No of Investors	Qty Share	% of Total
Saudis	83,496	857,290,826	79.38%
GCC	93	108,441,116	10.04%
Foreign	1,047	114,268,058	10.58%
Total	**84,636**	**1,080,000,000**	**100%**

BOARD OF DIRECTORS

About the Board

Yousef Bin Abdullah Al Shelash
Chairman

Yousef Bin Abdullah Al Shelash is the founder and chairman of Dar Al Arkan Real Estate Development Company. His experience lays in strategic planning and is a foremost real estate development expert.

In addition, he is also the Chairman of Saudi Home Loans "SHL", Chairman of Alkhair Capital Saudi Arabia and the Chairman of Alkhair Bank – Bahrain. Mr. Al Shelash holds a Bachelor in Islamic Law from Imam Muhammad bin Saud Islamic University, and a Diploma of Studies in Procedural Systems from the Institute of Management.

Majed Bin Abdulrahman Al Qasem
Vice Chairman

Majed Bin Abdulrahman Al Qasem is the vice chairman of the board of Dar Al Arkan Real Estate Development Company. His experience lays in Strategic Planning, real estate development, investment management and control, as well as regulations, risk and governance.

Mr. Al Qasem is also the vice chairman of the board of Alkhair Bank – Bahrain, and of Alkhair Capital Saudi Arabia. Mr. Al Qasem holds a Bachelor in Islamic Law from Imam Muhammad bin Saud Islamic University, and a Diploma of Studies in Procedural Systems from the Higher Judicial Institute.

Hethloul Bin Saleh Al Hethloul
Member

Hethloul Bin Saleh Al Hethloul is a member of the board of Dar Al Arkan Real Estate Development Company. He was also a member of the board of Alkhair Bank – Bahrain from 2004 till 2016, and a member of the board of Alkhair Capital Saudi Arabia (until 10 October 2018) and formerly served as a member of the board of Saudi Home loans "SHL" (until 17 April 2018). His expertise is in real estate investment, finance and valuation, and strategic planning. Mr. Al Hethloul holds a Diploma of Business Science.

Tariq Bin Mohamed Al Jarallah
Member

Tariq Bin Mohamed Al Jarallah is a member of the board of Dar Al Arkan Real Estate Development Company. His expertise is in land planning and valuation of real estate. He holds a Diploma of Accounting and Business Sciences.

Ahmed Bin Mohammed Al Dahash
Member

Ahmed Bin Mohammed Al Dahash is a member of the board of Dar Al Arkan Real Estate Development Company. He has a General Education and his expertise is in real estate development, property management and investment and real estate valuation.

Dr.Abdulaziz Bin Ibrahim Al Mana
Member

Dr. Abdulaziz Bin Ibrahim Al Mana is a member of the board of Dar Al Arkan Real Estate Development Company. Dr. Al Mana is also a University Professor, a former Minister of State in the Council of Ministers, and a former member of the Shoura Council. His expertise is in strategic planning, engineering education and management systems. Dr. Al Mana holds several degrees including: a Bachelor of Civil Engineering, University of Santa Clara, USA, a Master of and Ph.D. in Civil Engineering from Stanford University, USA.

Membership of the Board

The current board of directors of the company, which was elected on 20/6/2019, consists of 6 members, including (4) non-executive members and (2) independent members.

Category	Previous tenure for Board Membership 23/6/2016– 22/6/2019		Current tenure for Board Membership 23/6/2019 – 22/6/2022	
	Capacity	Membership	Capacity	Membership
Yousef Bin Abdullah Al Shelash	Chairman	Non-executive	Chairman	Non-executive
Abdullatif Bin Abdullah Al Shelash*	Managing Director	Executive	-	-
Majed Bin Abdulrahman Al Qasem	Vice Chairman	Independent	Vice Chairman	Non-executive
Khalid Bin Abdullah Al Shelash*	Member	Non-executive	-	-
Tariq Bin Mohamed Al Jarallah	Member	Independent	Member	Non-executive
Abdul Aziz Bin Abdullah Al Shelash*	Member	Non-executive	-	-
Majid Bin Romi Al Romi*	Member	Independent	-	-
Ahmed Bin Mohammed Al Dahash	Member	Independent	Member	Independent
Hethloul Bin Saleh Al Hethloul	Member	Non-executive	Member	Non-executive
Dr. Abdulaziz Bin Ibrahim Al Mana	Member	Independent	Member	Independent
Ziad El Chaar*	Member	Non-executive	-	-

* 22/6/2019 end of the member tenure on the BoD.

Interest in contractual securities and underwriting rights

Below table is a description of any interest in contractual securities and underwriting rights of Board Directors and senior executives and their relatives in the shares or debt instruments of the company or any of its affiliates and any change in that interest or rights during 2019.

Name	Capacity	No. of Shares at the beginning of the year	Ownership at the beginning of the year (%)	No. of shares on 22/06/2019 end of the member tenure on the BoD	Change in the number of shares during the year	Total shares at the end of the year	Ownership at the end of the year (%)	Nature of Ownership
Yousef Bin Abdullah Al Shelash	Chairman	1,000	0.00%	1,000	(1,000)	-	0.00%	Direct
Majed Bin Abdulrahman Al Qasem	Vice Chairman	3,844,550	0.36%	3,844,550	-	3,844,550	0.36%	Direct
		639,154	0.06%	639,154	-	639,154	0.06%	Owned by direct relative
Tariq Bin Mohamed Al Jarallah	Board Member	3,000	0.00%	3,000	-	3,000	0.00%	Direct
Ahmed Bin Mohammed Al Dahash	Board Member	2,005,104	0.19%	2,005,104	-	2,005,104	0.19%	Direct
Hethloul Bin Saleh Al Hethloul	Board Member	8,028,850	0.74%	8,028,850	-	8,028,850	0.74%	Direct
Dr. Abdulaziz Bin Ibrahim Al Mana	Board Member	2,000	0.00%	2,000	-	2,000	0.00%	Direct
Ahmed Bin Saleh Al Dehailan	Chief Audit Executive	80,000	0.01%	80,000	-	80,000	0.01%	Direct
Khalid Bin Abdullah Al Shelash*	Board Member	20,343,693	1.88%	20,343,693	-	-	-	Direct
		957	0.00%	957	-	-	-	Owned by direct relative
Abdul Aziz Bin Abdullah Al Shelash*	Board Member	3,849,550	0.36%	2,348,550	(1,501,000)	-	-	Direct
Majid Bin Romi Al Romi*	Board Member	3,844,550	0.36%	3,844,550	-	-	-	Direct
Abdullatif Bin Abdullah Al Shelash*	Managing Director	9,137,550	0.85%	7,636,550	(1,501,000)	-	-	Direct
Ziad El Chaar*	Board Member	50,000	0.00%	50,000	-	-	-	Swap
TOTAL		51,829,958	4.80%	48,827,958	(3,003,000)	14,602,658	1.35%	

* 22/6/2019 end of the member tenure on the BoD

MEETINGS ATTENDANCE

Board meetings register

Name	26 Feb	27 May	25 Jun	10 Sep	18 Dec	Total
Yousef Bin Abdullah Al Shelash	✓	✓	✓	✓	✓	5
Abdullatif Bin Abdullah Al Shelash*	✓	✓	-	-	-	2
Majed Bin Abdulrahman Al Qasem	✓	✓	✓	✓	✓	5
Khalid Bin Abdullah Al Shelash*	✓	✓	-	-	-	2
Tariq Bin Mohamed Al Jarallah	✓	✓	✓	✓	✓	5
Abdul Aziz Bin Abdullah Al Shelash*	✓	✓	-	-	-	2
Majid Bin Romi Al Romi*	✓	✓	-	-	-	2
Ahmed Bin Mohammed Al Dahash	✓	✓	✓	✓	✓	5
Hethloul Bin Saleh Al Hethloul	✓	✓	✓	✓	✓	5
Dr. Abdulaziz Bin Ibrahim Al Mana	✓	✓	✓	✓	✓	5
Ziad El Chaar*	✓	✓	-	-	-	2

* 22/6/2019 end of the member tenure on the BoD.

Board members General Assembly meetings register 2019

Name	20 Jun
Yousef Bin Abdullah Al Shelash	✓
Abdullatif Bin Abdullah Al Shelash*	✓
Majed Bin Abdulrahman Al Qasem	✓
Khalid Bin Abdullah Al Shelash*	X
Tariq Bin Mohamed Al Jarallah	✓
Abdul Aziz Bin Abdullah Al Shelash*	✓
Majid Bin Romi Al Romi*	X
Ahmed Bin Mohammed Al Dahash	✓
Hethloul Bin Saleh Al Hethloul	✓
Dr. Abdulaziz Bin Ibrahim Al Mana	✓
Ziad El Chaar*	X

* 22/6/2019 end of the member tenure on the BoD.

BOARD COMMITTEES

The Board comprises of three committees: Executive, Audit and Remuneration and Nominations committee. The formation of these committees is as follows:

The executive committee

The executive committee formation and meetings register:

Name	Capacity	Meeting Register				
		13 Mar	10 Apr	20 Aug	20 Nov	Total
Yousef Bin Abdullah Al Shelash	Chairman	✓	✓	✓	✓	4
Abdullatif Bin Abdullah Al Shelash*	Member	✓	✓	-	-	2
Tariq Bin Mohamed Al Jarallah	Member	✓	✓	✓	✓	4
Majed Bin Abdulrahman Al Qasem	Member	✓	✓	✓	✓	4

* 22/6/2019 end of the member tenure on the BoD.

Committee's responsibilities and meetings:

Monitor the implementation of the company strategy by overseeing the preparation of the operational plan and its execution; reviewing and recommending the adoption of the Company's values, vision, goals and policies that determine the Company's overall approach to executing its work; pursue financing plans in respect of the Company's investments; provide advice in relation to investments including engagement in mergers and/or joint ventures and/or obtaining project financing; ensure the proper allocation of resources for the implementation of the Company's strategies such as funding and human resources; develop criteria for selecting the CEO and senior executive staff and to supervising its implementation; review and evaluate the performance of the executive management in achieving the goals of the set strategy and monitor and address any deviations; review and evaluate strategic plans quarterly in order to evaluate and modify them when necessary according to market information and internal requirements; review periodic reports presented by the executive management that relate to the Company's competitive situation and organizational, financial and technical factors which may affect the Company's long term strategy; approve the recommendations of the human resources policies and regulations; review and evaluate the market and competitive trends put forward by the executive management and assess its impact on the Company's business. The Committee held four meetings during 2019.

The audit committee

The audit committee formation and meetings register:

Name	Capacity	Meeting Register					
		26 Feb	8 May	16 May	29 Jul	5 Nov	Total
Tariq Bin Mohamed Al Jarallah	Chairman	✓	✓	✓	✓	✓	5
Hethloul Bin Saleh Al Hethloul	Member	✓	✓	✓	✓	✓	5
Majed Bin Abdulrahman Al Qasem	Member	✓	✓	✓	✓	✓	5
Majid Bin Romi Al Romi*	Member	✓	✓	X	-	-	2
Ahmed Bin Mohammed Al Dahash**	Member	-	-	-	✓	✓	2

* 22/6/2019 end of the member tenure on the BoD
** Appointed on 23/6/2019

The committee's responsibilities and meetings:

The Audit Committee shall have the authority to monitor the Company's business and shall have the right to inspect its records and documents and to request any clarification or statement from the members of the Board of Directors or the Executive Management.

The Committee shall perform its approved functions, including supervising the Company's internal audit department and studying its report, in addition to the study of annual financial statements, the accounting policies adopted and recommending the Board of Directors to nominate the auditors of the company, and study the reports of the regulatory authorities on the company's compliance with the regulations and instructions.

The employees of the company are able to provide their observations regarding any violation of the company's internal regulations. The committee submits its recommendations to the board of directors. The Audit committee held five meetings during 2019. The committee discussed and reviewed the quarterly and annual financial statements for the year 2019 and passed their recommendations to the Board.

The nominations and remuneration committee

The nominations and remuneration committee formation and meetings register:

Name	Capacity	Meeting Register			
		23 Apr	1 May	24 Jul	Total
Majed Bin Abdulrahman Al Qasem	Chairman	✓	✓	✓	3
Yousef Bin Abdullah Al Shelash	Member	✓	✓	✓	3
Ahmed Bin Mohammed Al Dahash	Member	✓	✓	✓	3
Dr. Abdulaziz Bin Ibrahim Al Mana	Member	✓	✓	✓	3

Committee's responsibilities and meetings:

Recommendation to the Board of Directors to nominate for Board membership; annual review of the appropriate skills needed for Board membership and provide a description of the capabilities and qualifications required for membership; review the structure of the Board of Directors and recommend necessary changes identifying weaknesses and strengths; confirm periodically the independence of members and absence of any conflict of interests in the event of another Company Board membership; develop clear policies and criteria for Board members and senior executive remuneration according to performance criteria. The Committee held three meetings during 2019.

BOARD UNDERTAKINGS

The Board of Directors undertakes the following:

- Proper accounting books have been maintained
- The system of internal control has been effectively implemented
- There are no significant doubts concerning the Company's ability to continue as a going concern

RISK FACTORS

Risk management policies

The Company has adopted appropriate risk management policies and procedures to manage operational, financial, market-related and other risks. Risk management is an integral part of the company's activities and decision-making processes. The company aims to secure an acceptable balance between risks and returns as the company seeks to achieve its business goals.
The company's Risk Management Framework applies risk standards, which follow a logical and systematic approach to determine, analyze, assess, treat, monitor and report the significant risks that are faced by the company and to take appropriate decisions and promptly respond to risks or potential opportunities that have an impact on the company's competitiveness. Risks by their nature can cause unforeseen outcomes and following risk management processes is not by itself a guarantee that all risks can be mitigated to ensure that they do not have any impact on the business.

The risks that the Company may face and commensurate management & control policies

The following section describes the principal risks facing the company and our efforts to mitigate them. It should be noted that there could be no assurance that these efforts will be successful in mitigating these risks, wholly or partly. It should also be noted that the following section is intended to be only a summary and there are numerous other risks, which could materially affect the company's financial condition and operational results adversely.

Price fluctuation

The company cannot control the market prices of its real estate products, and the market fluctuations in product prices may directly affect revenues. This effect can be positive in times of rising product prices, or can be negative when product prices decline, leading to a significant impact on profitability and cash flows.
In general, the Company seeks to mitigate this risk by providing cost-effective products and to satisfy the requirements of tenants and / or buyers. The excess supply of real estate products in the market, with low prices, might lead high-cost real estate developers to exit the market, while cost balanced companies could maintain their position in the market as they continue to operate with a positive cash margin.

Country risk

Country risk refers to the risk of investing in a foreign country, arising from possible changes in the business environment that may adversely affect operating profits or the value of assets in that country. This risk is the result of a drastic change in local policies, laws and regulations in foreign countries, which could adversely affect the expected returns from investment in real estate or projects.
The company frequently undertakes adequate investment studies of foreign investment opportunities and invests in the most stable countries in line with the objectives and strategy of the company's growth, provided that these investments/projects are implemented in accordance with adequate control procedures

Cyber security

Cyber-attacks and security breaches may threaten the integrity of our intellectual property and other sensitive information, disrupt operations and activities, and result in material damage, reputational harm and other negative consequences that could have material adverse impact on our financial condition and the results of operations.
The company has expert IT staff and contracts specialist consultants that specialize in protecting and securing information, constantly reviewing security threats and looking for opportunities to enhance information security.

Project development and execution

Project identification, development and execution phases might be exposed to material risk. Ineffective development or execution of a key project can compromise the capital expenditure budget and schedule, and consequently affect the company's profitability, growth prospects, reputation, and overall financial health.
To minimize these risks, development and investment decisions in respect to the current and new projects are executed and monitored using a "Stage Gate" project system to ensure that the current or new projects properly account for the costs, risks and expected returns of the investment.
During execution, project managers including third party expert companies are used to manage progress to ensure project completion on budget, quality and schedule. This includes providing monthly completion reports and capital expenditure reports to the executive management to monitor progress, identify slippage and propose remedial action.

Marketing

In case of market decline, the company faces the risk of insufficient clients (decrease in demand) for all its real estate products (residential or commercial). Also delay in leasing and / or selling real estate products may have a negative impact on the company's profitability and cash flows.
To minimize these risks, the Company seeks to diversify its product portfolio to meet the market conditions as much as possible and to reach the possible tenant and / or the buyers using effective marketing tools such as direct or indirect and electronic marketing.

Health, safety and security

The Company's real estate products or projects may have inherent health, safety and security risk that could result in serious personal injury or other operational and financial losses.
The company seeks to mitigate these risks through implementing the health and safety procedures in all sites in accordance with local recognized health and safety standards. The company has a system of reporting and all incidents are reviewed with the goal of drawing lessons and preventing recurrence.

Cost of funding

The cost of financing has reached acceptable levels in the recent years. There is no absolute assurance that this situation will continue. Any significant increase in financing costs could have a negative impact on profitability and cash flows.
The Company seeks to ensure that its debt facilities are of an appropriate size and structure for the business and regularly monitors changes in the costs of funding.

Credit Risk

Credit risk can be defined as a loss of value of an asset as a result of a failure by a customer or a counter party to such commercially valid and legally enforceable contract to comply with its obligations.
The general sales policy of the company is "No Credit" terms, but in some cases there are enhanced payment schedules or staggered payments to selected customers which have been accommodated. In such cases the company has an exposure of credit risk with respect to the amount due from those customers. However, in such cases the company holds back the final delivery or possession of the property to mitigate the risk until the full amount due is paid to the satisfaction of the contract. The monitoring and follow up of balances is completed regularly and as a result the company's exposure to losses is limited.
With respect to the credit risk exposure of other financial assets, namely, due from related parties, bank deposits and trade and other receivables, the maximum credit of the company is limited to their carrying values, in case there is a failure of the other party to meet its obligation.
As of the reporting date, the company does not have significant credit risk concentration with any single party or a group.

Commission Rate Risk

Commission rate risk is associated with a change in the commission rate available when renegotiating financial instruments that are influenced by the current global financial market conditions.

- The company is exposed to commission rate risk with respect to its floating commission covenants agreed for its long term Islamic Murabaha (revolving credit) facilities obtained from local banks. The short term revolving borrowings' rates are renegotiated at every renewal proposal to achieve the best possible commission rate to reflect the given financial credentials and related risk perception of the company.

- The company has a specific shariah' compliant commission rate swap contract to manage its commission rate risk. The company's international borrowing commission rates are primarily based on LIBOR and its local borrowings are based on SAIBOR. Hence, the commission exposure of the company is variable according to the changes in the LIBOR and SAIBOR. The commission rate sensitivity analysis is performed based on the commission rate exposure of the company for floating rate liabilities outstanding at the reporting date. The calculations are done on floating commission rates assuming the liabilities outstanding for a whole year as at the reporting date.

- The net profit of the company for the reported year would have been affected as a result of changes in floating commission rates. If there is any capitalization of borrowing costs directly attributed to projects in progress, there would be timing differences on such an impact to the company's current profit and loss account and the current impact would be nil as there is no capitalization for the current year or historically, the management capitalizes approximately 10% of borrowing costs to projects in progress as explained in note 2.9 in the audited financial statements.

Liquidity Risk

Liquidity risk can result from a difficulty to meet the financial commitments and obligations of the company as per the agreed terms and covenants.

To mitigate the liquidity risk and associated losses of business and brand value opportunities; the company, where possible, keeps sufficient liquid assets in all business conditions. The company refrains from funding its long term capital requirements through short term borrowings and related party current account transactions. Currently the long term projects are funded from long term or revolving borrowings only. The company also has a dynamic cash flow assessment policy and system by which it can estimate and plan the maturities as well as required resources to meet such obligations.

Foreign Currency Risk

Foreign Currency risk is associated with the change in the value of the carrying value in the functional currency due to the variation of the underlying foreign currency obligation or right by way of transaction or translation reasons. The functional currency of the company is the Saudi Riyal that is pegged against the US Dollar with a fixed exchange rate of 3.75 Saudi Riyal per US Dollar. Since transactions, other than US Dollars, are negligible; the company does not assume any significant foreign currency risk.

GOVERNANCE AND REGULATION

CORPORATE GOVERNANCE

According to corporate governance regulation issued by the Capital Market Authority, the Board of Directors has approved Dar Al-Arkan's corporate governance regulations taking into consideration the rights of shareholders, customers, employees, all stakeholders, as well as enhancing relations with them, and preserving their interests. Under the corporate governance regulations, the company is committed to the principles of transparency and disclosure, the activation of the Board and the executive management roles, while identifying their responsibilities and training on an on-going basis. The company also seeks to ensure the mechanisms that enhance the effectiveness of internal control and risk management, in addition to complying with corporate governance regulations issued by the Capital Market Authority, and adopting best practices in governance to boost the corporate culture, and implement sound management rules in the company. Such actions ultimately reflect company's desire to work hard to meet the highest levels of governance, setting an example as a national company. The Board of Directors strives to achieve the objectives through the Board's active committees; the Executive, the Audit, and the Nominations and Remuneration Committees.

It is worth mentioning that the company has applied all the required articles of the corporate governance regulations issued by the Capital Market Authority. Dar Al-Arkan's corporate governance regulations have therefore been prepared in the light of the globally acknowledged principles of sound corporate governance, and should be viewed as the basis for corporate governance within the Company. They should, also, be considered within the context of the broader legislative framework in force in Saudi Arabia, and in particular, the stipulations of the following:

- The requirements of the Capital Market Law issued by Royal Decree No. M/30 dated 02/06/1424H and its regulations issued by the Board of the Capital Market Authority Pursuant to Resolution Number (8-16-2017) Dated 16/5/1438H Corresponding to 13/2/2017G amended by Resolution of the Board of the Capital Market Authority Number 3-57-2019 Dated 15/9/1440H Corresponding to 20/5/2019G;

- The Companies' Law of Saudi Arabia No. M/3 dated 28/01/1437H and associated ministerial directives of the Ministry of Commerce & Investment; and

- The amended Dar Al-Arkan's Articles of Association.

The provisions of the Corporate Governance Regulations, unless applicable, and the reasons for this

The Company applies all the mandatory provisions of the Corporate Governance Regulations issued by the CMA, with no exception for any mandatory provision.

Remuneration and compensation paid to the Board members and senior executives and compensation

The following table shows the remuneration and compensation paid to Board members and the top five senior executives who received the highest bonuses and compensation from the Company during 2019.

Description (in '000 Saudi Riyal)	Executive Board members	Non-executive/ independent Board members	Senior executive including (MD until 22 Jun 2019), CEO and CFO
Salaries and compensation	-	-	5,440
Allowances	-	-	2,208
Periodic and annual bonuses	-	-	-
Incentive plans	-	-	-
Any other compensations or incentives paid monthly or annually	-	-	599
End of service contribution			476

Penalties and Fines

Fine	Reasons for Fine	Amount	Fine received from	Ways to address them and avoid them in the future
A penalty for erecting a poster on the company's HQ building	Although Dar Al-Arkan obtained the approval from the municipality to place a poster for the national day celebration during 2018 on the HQ building, the municipality (Ejada) requested the removal of the poster and fined the company on 2019	2,000 SR	Ejada Company	The Company will obtain a separate approval for specific period of time in the event that the Company wishes to have such poster in the future
Delay of iqama renewal	Transfer of sponsorship of employees whose residence permit has expired, prior to the general update of the Labor Office (adding a Principal Commissioner) for Dar Alosool and deliver it to Dar Al Arkan and then renewed	1,000 SR	General Directorate of Passports	The data had been updated on the system and the Principal Commissioner has been added

Internal Control

The internal control system at Dar Al-Arkan represents an integrated process implemented by the Company's management and staff. The system is designed to mitigate risk, improve efficiency and effectiveness of all the Company's operations, ensuring accuracy and reliability of the Company's financial statements and compliance with laws and regulations to safeguard property against loss, damage or misuse.

Internal Audit

The Internal Audit is one of the important departments in Dar Al-Arkan. In recognition of its critical role, and to guarantee its independence and objectivity, the Internal Audit reports functionally to the Audit Committee. The department applies the international standards for the professional practice of internal auditing issued by the Institute of Internal Auditors in Florida, USA. The internal audit staff is certified by the Institute of Internal Auditors.

The internal audit department provides independent, objective advisory services for the purpose of adding value and improving the company's operations, where it helps the company achieve its goals by adopting a systematic and disciplined methodology that aims at reviewing and improving the effectiveness of risk management process, internal controls and corporate governance. The Internal Audit provides the Audit Committee and senior management with relevant, objective and timely information, and it evaluates not only the company's current situation but also provides the officials and Board of Directors with the necessary data they need to discharge their responsibilities and take the appropriate financial and executive decisions. The objectives that Internal Audit department is pursuing include helping company employees carry out their jobs efficiently, providing them with assessment, recommendations, and all information relevant to audit activity while boosting effective control and leverage the cost-effective execution of all the company's operations.

During 2019, the Internal Audit department implemented the approved Internal Audit Plan and worked very closely with other departments by providing them with appropriate recommendations related to the procedure enhancement of the company's operations and policies. Therefore, Internal Audit department managed to improve the effectiveness and efficiency of the internal control system and to enhance the performance and monitoring of internal controls as well as providing support and assistance to other departments to help them attain their objectives.

Features of the internal control system

The control environment in the company

The organizational structure is the framework for control of the Company where lines of responsibility and authority are allocated to clearly define the relations within the organization and therefore strategy and investment structure.

Internal control procedures

The internal control procedures include administrative and accounting controls along with internal rules of the Company. These procedures are reflected in a series of policies and procedures approved by the Company in accordance with applicable laws and regulations.

Results of the effectiveness of the company's internal controls in the annual audit

The Company applies all the mandatory provisions of the Corporate Governance Regulations issued by the CMA, with no exception for any mandatory provision.

1. The functions of the internal audit department include assessing the adequacy and effectiveness of the design of the Company's internal control, risk management and governance system. Also, focusing on the risks that could affect the company's business using the risk-based audit methodology. Management applied the International Standards of Internal Auditing.

2. The Internal Audit Department is objective and independent. The Internal Audit Department is functionally and administratively reporting to the Audit Committee. The Internal Audit Department has the appropriate authority to obtain information, documents and interviews with staff.

3. During the year 2019, the Internal Audit Department performed periodic reviews according to the approved annual plan. The Internal Audit Department carried out the planned audits for 2019, in addition to the management's involvement in the implementation of some special assignments.

4. Scope of work

The scope of internal audit work in 2019 included an examination of the adequacy and effectiveness of the Company's internal control system to verify whether the Company's internal systems provide reasonable assurance to achieve the Company's objectives. The scope of work included the following:

- Audit and periodic inspection of the departments that work in the company during appropriate periods.
- Inform and submit the audit results to departments under audit in order to verify the necessary procedures.
- Evaluate the plans and procedures provided by departments to address the audit observations and recommendations covered in the audit report. In case of insufficient corrective actions, the internal audit department may re-discuss the plans and recommendations with concerned departments to ensure the efficiency and adequacy of the measures taken.

5. The results of the annual audit of the effectiveness of the internal control system procedures concluded that:

- Adequate financial and accounting systems and sufficient procedures to prepare the financial statements.
- The internal control system is operating effectively and risk strategy had been updated as well as the methods to mitigate the risks.
- Corrective actions had been implemented for all the internal audit observations and recommendations which were submitted to the Audit Committee.

Consolidated Financial Statements and Independent Auditor's Report

DAR AL ARKAN
REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

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AlKharashi & Co.
Certified Accountants And Auditors

Correspondent of MAZARS

Mohammed Al-hajj & Co.
Certified Public Accountants
License : 323/11/811
Independent Member of CPA Associates International

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Dar Al Arkan Real Estate Development Company (A Saudi Joint Stock Company)

Opinion

We have audited the accompanying consolidated statements of **Dar Al Arkan Real Estate Development Company** (A Saudi joint stock company) (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the statement of consolidated financial position as at December 31, 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

The Key Audit Matters	How the matter was addressed in our audit
Evaluation of development properties The Group maintains development properties consisting primarily of under construction and development projects for the purpose of development and sale in its ordinary course of business. The carrying amount of real estate properties is SAR 17.231 billion (31 December 2018: SR 14.498 billion). All development properties (held for development or sale) are initially recognized at acquisition cost and subsequently re-measured at the lower of cost and net realizable value, whereas their fair value is estimated for the purpose of disclosure only in the notes to the consolidated financial statements. Management has determined the net realizable value of the development properties based on internal valuation, taking into account market data adjusted in comparison to the characteristics of the concerned properties, including the inputs used by the management during its assessment of the expected cash flows and the market current rental value in which both are exposed to the changes in the prevailing market forces and the characteristics of each property in the portfolio. During the period, the Group's management conducted an internal review and evaluation of the development properties resulting in an increase in the fair value by 20% (31 December 2018: 20%) through the development property portfolio as described in note 6. Management believes that the increase in carrying amount is a conservative indication of the fair value of the Group's development properties. The valuation of the cost of properties and net realizable value is a complex process where the change in the Group's estimate of the selling price and the cost of construction would materially affect the carrying amount of the properties held for development and sale in the Group's consolidated financial statements.	• We assessed the appropriateness of evaluation methods and assumptions, critical judgment areas and estimates used by management in the internal evaluation process; • We have engaged in discussions with management and have evaluated the relevant assumptions used, based on market data where possible: • We have tested the appropriateness of the key inputs used in the valuation of properties held for development and sale; • For commercial and residential properties held for sale, we have compared the main assumptions used by management with external data in the area of business and comparable real estate transactions, particularly selling prices; • We have assessed the reason for changes in key inputs, estimates and assumptions for the prior period; • We assessed the effectiveness and efficiency of management staff experience in the evaluation process; • Based on the results of our valuation, we have estimated the adequacy of the disclosures in the Group's consolidated financial statements.

The Key Audit Matters	How the matter was addressed in our audit
Evaluation of development properties	
Investment properties are stated in the Group's consolidated financial position at cost less depreciation and impairment (if any), and their fair value is disclosed in the notes attached to the consolidated financial statements. The Group's management has estimated the fair value of its investment properties on December 31, 2019, by an independent valuation expert with a recognized professional qualification and experience in the real estate site. The fair value of investment properties has been estimated using the income capitalization method. Annual cash flows are estimated by extrapolating and reconciling the current rental income based on their optimal occupancy and then capitalizing it at an annual rental rate of 6-8% between the leased residential and commercial properties in order to reach the estimated fair value shown in the note 5. The valuation of investment properties is critical to our audit because of its importance, complexity and significant reliance on a range of assumptions including expected lease values, expected returns, occupancy rate and discount rate.	• We assessed the critical assumptions used in the evaluation process that include expected rental values, expected returns, occupancy rate and discount rate. • We reviewed lease agreements and compared these assumptions with published indicators and available comparative market data; • We evaluated key inputs and assumptions in the evaluation model and analyzed their sensitivity to key elements; • We also assessed the reason for changes in key inputs, assessments and assumptions for the prior period; • We assessed the efficiency, independence and integrity of the external evaluation firm; and • Based on the results of our valuation, we have estimated the adequacy of the disclosures in the Group's consolidated financial statements.

Other Information

Other information consists of other information from the information included in the Company's annual report for the year ended 31 December 2019, other than the consolidated financial statements and the auditors' report thereon. We expect to obtain the Annual Report for the year ended 2019 after the date of this auditor's report. The Group's management is responsible for the other information mentioned in its annual report.

Our opinion on the consolidated financial statements does not cover other information and we do not and will not express any form of assurance conclusion thereon.
In our audit of the consolidated financial statements, it is our responsibility to read the information described above. In doing so, we consider whether the other information is not materially consistent with the consolidated financial statements or knowledge obtained in the audit, or otherwise appears to be materialy misstated.

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

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of
Dar Al Arkan Real Estate Development Company (A Saudi Joint Stock Company) (continued)

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

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

In preparing the consolidated financial statements, management is responsible for assessing the 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 consolidated financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

The article No.135 of the companies' regulations requires that the auditor should include in his audit report any violation of the Companies' Regulations or the Company's articles of association. During our audit, we did not note any violation of the Companies' Regulations or the Company's articles of association.

For Al-Kharashi Co.

Suliman Al-Kharashi
Certified Public Accountant
License No. (91)

29 Rajab 1441H
24 March 2020G

For Mohammed Al-haij & Co.

Mohammed A. Al-haij
Certified Public Accountant
License No. (119)

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECMBER 2019

	Notes	2019 SR 000	2018 SR 000
ASSETS **Non-current assets**			
Investment properties, net	5	1,651,357	1,693,141
Long-term development properties	6	16,895,604	14,148,262
Property and equipment, net	7&22a	79,765	83,085
Investments in associates and joint ventures	8	1,154,506	826,621
Other assets, net	9	1,501	2,511
Total non-current assets		**19,782,733**	**16,753,620**
Current assets			
Short-term development properties	6	334,950	349,329
Trade receivables and others	10	3,981,526	4,740,877
Cash and cash equivalents	11	3,950,020	4,903,491
Total current assets		8,266,496	9,993,697
TOTAL ASSETS		**28,049,229**	**26,747,317**
LIABILITIES AND SHAREHOLDERS' EQUITY **Non-current liabilities**			
Borrowing -long-term maturity portion	12	7,326,740	4,731,167
End of service indemnities	13	21,614	19,011
Total non-current liabilities		**7,348,354**	**4,750,178**
Current liabilities			
Borrowings-short-term maturity portion	12	405,943	1,849,623
Trade payables and others	14	798,779	885,355
Zakat provision	15c	486,665	556,828
Total current liabilities		1,691,387	3,291,806
Total liabilities		**9,039,741**	**8,041,984**
Shareholders' Equity			
Share capital	16	10,800,000	10,800,000
Statutory reserve		1,140,016	1,109,601
Retained earnings		7,069,472	6,795,732
Total shareholders' equity		**19,009,488**	**18,705,333**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**28,049,229**	**26,747,317**

Authorised Board of Directors Member | **Chief Executive Officer** | **Chief Financial Officer**

The accompanying notes form an integral part of these consolidated financial statements

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 SR 000	2018 SR 000
Revenue	17	3,491,856	6,412,265
Cost of revenue	18	(2,667,416)	(5,355,114)
GROSS PROFIT		**824,440**	**1,057,151**
Operating expenses			
General and administrative expenses	19	(174,787)	(168,942)
OPERATING PROFIT		**649,653**	**888,209**
Finance costs	20	(478,418)	(511,652)
Other income, net		133,269	129,866
Share of net profits from associates and joint ventures	8a	7,885	15,432
PROFIT BEFORE ZAKAT		**312,389**	**521,855**
Zakat provisions	15b	(7,799)	(13,046)
NET PROFIT FOR THE YEAR		**304,590**	**508,809**
Other comprehensive income			
Re-measurement (loss)/ gain on end of service indemnities		(435)	2,974
Total comprehensive income for the year		**304,155**	**511,783**
Earnings per share (in Saudi Riyal)			
Basic and diluted	21	**0.28**	**0.47**
Total comprehensive income attributable to			
Dar Al Arkan shareholders		**304,155**	**511,783**

Authorised Board of Directors Member

Chief Executive Officer

Chief Financial Officer

The accompanying notes form an integral part of these consolidated financial statements

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY
CONSOLIDATED 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	Total equity SR 000
2019				
Balance as at 1 January 2019	**10,800,000**	**1,109,601**	**6,795,732**	**18,705,333**
				304,590
Net profit for the year	-	-	304,590	
Other comprehensive (loss)/income	-	-	(435)	(435)
Total comprehensive income for the year	**-**	**-**	**304,155**	**304,155**
Transfer to statutory reserve		30,415	(30,415)	-
Balance as at 31 December 2019	**10,800,000**	**1,140,016**	**7,069,472**	**19,009,488**
2018				
Balance as at 1 January 2018	**10,800,000**	**1,058,720**	**6,874,830**	**18,733,550**
Net profit for the year	-	-	508,809	508,809
Other comprehensive income	-	-	2,974	2,974
Total comprehensive income for the year	**-**	**-**	**511,783**	**511,783**
Transfer to statutory reserve	-	50,881	(50,881)	-
Dividends	-	-	(540,000)	(540,000)
Balance as at 31 December 2018	**10,800,000**	**1,109,601**	**6,795,732**	**18,705,333**

Authorised Board of Directors Member

Chief Executive Officer

Chief Financial Officer

The accompanying notes form an integral part of these consolidated financial statements

	2019 SR 000	2018 SR 000
OPERATING ACTIVITIES		
Profit before Zakat	**312,389**	**521,855**
Adjustment for:		
Depreciation	54,643	78,355
Amortisation	1,010	-
Provision for expected credit losses	2,000	-
Provisions for end of service indemnities	4,313	4,122
Finance costs	478,418	511,652
Share of net profit from associates and joint ventures	(7,885)	(15,432)
Operating cash flows before movements in working capital	**844,888**	**1,100,552**
Development properties, net	(2,732,963)	1,903,999
Trade receivables and others	757,351	(707,552)
Other assets	-	(561)
Trade payables and others	(86,576)	347,330
Cash (used in) /from operations	**(1,217,300)**	**2,643,768**
Finance costs paid	(445,309)	(474,207)
Zakat paid	(77,962)	(5,888)
End-of-service indemnities paid	(2,145)	(4,098)
NET CASH (USED IN)/FROM OPERATING ACTIVITIES	**(1,742,716)**	**2,159,575**
INVESTING ACTIVITIES		
Investment in associates	(320,000)	-
Purchase of property and equipment	(6,293)	(19,465)
Investment Properties	(3,246)	(648)
NET CASH USED IN INVESTING ACTIVITIES	**(329,539)**	**(20,113)**
FINANCING ACTIVITIES		
Dividend	-	(540,000)
Long term borrowings	1,118,784	144,363
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	**1,118,784**	**(395,637)**
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(953,471)	1,743,825
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	4,903,491	3,159,666
CASH AND CASH EQUIVALENTS, END OF THE YEAR	**3,950,020**	**4,903,491**
Non-cash transactions		
Addition to right to use assets & liabilities (note 22)	-	**883**
Transfer of investment properties to development properties	-	**1,527,350**

Authorised Board of Directors Member

Chief Executive Officer

Chief Financial Officer

The accompanying notes form an integral part of these consolidated financial statements

GENERAL INFORMATION

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY (the "Company"), is a Saudi Joint Stock Company established under the Company Laws & Regulations of The Kingdom of Saudi Arabia. The Company is registered in Riyadh under Commercial Registration No. 1010160195 dated 16/04/1421H, corresponding to 18/07/2000 G. The Company is domiciled in The Kingdom of Saudi Arabia (K.S.A.) and its registered office address is P.O. Box No: 105633, Riyadh-11656, K.S.A.

The equity shares of the Company are listed with the security market of The Kingdom of Saudi Arabia.

The Company and its Subsidiaries are collectively called "the Group" and is predominantly engaged in the business of development, sale and leasing of real estate projects and associated activities. The Company manages its activities through subsidiaries established for each line of business. These Subsidiaries operate under their own commercial registration and are summarised below:

DAR AL ARKAN PROPERTIES COMPANY – (previously known as Dar Al Osool Company) is a closely held joint stock company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010254063, dated 25/7/1429 H (corresponding to 28/7/2008 G). It operates in development and acquisition of commercial and residential real estate. It provides management, operation and maintenance of residential and commercial buildings and public facilities.

DAR AL-ARKAN COMMERCIAL INVESTMENT COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010247585, dated 28/3/1429 H (corresponding to 5/4/2008 G). It operates in purchase and acquisition, lease of real estate investments.

DAR AL-ARKAN SUKUK COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010256421, dated 16/9/1429 H (corresponding to 16/9/2008 G). It operates in Real Estate investments and development.

SUKUK AL-ARKAN COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010274407, dated 11/10/1430 H (corresponding to 01/10/2009 G). It operates in development, maintenance and management of real estates, purchase of land and general contracting.

DAR SUKUK INTERNATIONAL COMPANY – is a limited liability company, formerly known as Siyada investment Company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010275448, dated 30/10/1430 H (corresponding to 19/10/2009 G). It operates in Real Estate investments and development.

DAR AL-ARKAN REAL ESTATE INVESTMENT COMPANY – is a limited liability company (previously known as Dar Al Arkan Property (AM) Company), a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010521509, 22/6/1438 H (corresponding to 21/3/2017 G). It operates in Real Estate investments and developments, leasing and property management.

MAAQEL REAL ESTATE COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010600708, 24/2/1441 H (corresponding to 23/10/2019 G). It operates in Real Estate, leasing and property management.

BAWADI FOR REAL ESTATE COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010600710, 24/2/14441 H (corresponding to 23/10/2019 G). It operates in general construction, and purchase and sale, acquisition, leasing of real estate and property management.

AL-ENTESHAR REAL ESTATE COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010600709, 24/2/1441 H (corresponding to 23/10/2019 G). It operates in sale, and purchase, acquisition, leasing of real estate and property management.

SAWAED REAL ESTATE COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010600711, 24/2/1441 H (corresponding to 23/10/2019 G). It operates in sale, and purchase, acquisition, leasing of real estate and property management.

Pursuant to the shareholding change in Thawabit Investment Company (C.R number 1010275449, dated 30/10/1430 H (corresponding to 19/10/2009 G) in January 2019 the relevant financial transactions are now being consolidated with Dar Al Arkan Project Company with effective from January 2019 and pursuant to the shareholding change in Dar al Arkan Projects Company (C.R number 1010247583, dated 28/3/1429 H (corresponding to 05/04/2008 G) in December 2019 the relevant financial transactions are now being consolidated with Dar Al Arkan Properties Company with effective from December 2019. There were no effect or changes to the consolidated financial statement of the Group due to this shareholding change in Dar Al Arkan Projects Company.

Dar Al-Arkan Real Estate Development Company wholly owns directly and indirectly the above mentioned subsidiaries.

The accompanying consolidated financial statements include the assets, liabilities and the results of operations of the subsidiaries mentioned above.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") endorsed by SOCPA and adopted in KSA, consistent with the Group's accounting policies.
These consolidated financial statements are presented in Saudi Riyals (SR), which is the Group's functional currency.

ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Standards and interpretations effective in the current period

In the current year, the Group has adopted all new Interpretations issued by the International Financial Reporting Interpretation Committee ("IFRIC") that are mandatory for adoption in the annual periods beginning on or after 1 January 2019.

IAS 12	Amendment	- Clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
IFRIC 23	clarifications	- Uncertainty over Income Tax Treatments. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.
IAS 19	Amendments	- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement.
IAS 28	Amendment	- Long-term Interests in Associates and Joint Ventures has been amended to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

Generally; the adoption of these interpretations has not led to any changes in the Group's accounting policies and disclosures provided in the consolidated financial statements.

Standards, amendments and interpretations in issue but not yet adopted

The following standards, amendments and interpretations were in issue at the date of authorisation of these financial statements, but not yet effective, and therefore were not applied in these consolidated financial statements.

The impact of the adoption of these standards is currently being assessed; however, the directors anticipate that the adoption of these standards, amendments and interpretations in future periods will not have a significant impact on the consolidated financial statements of the Group.

IFRS 3	Amendments	- The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period
IFRS 7, 9 and IAS 39	Amendment	- Amendments regarding pre-replacement issues in the context of the IBOR reform applicable annual periods beginning on or after 1 January 2020
IFRS 17	New standard	- Insurance Contract applicable annual periods beginning on or after 1 January 2021
IAS 1& 8	Amendment	- Dentition of Material (new definition of material and the accompanying explanatory paragraphs is included in IAS1)

ACCOUNTING CONVENTION

The consolidated financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial instruments at fair value and investment in associates at equity method. The obligation of post- employment benefits is accounted for the present value of future obligation. The principal accounting policies are set out below.

BASIS OF CONSOLIDATION

The Group consolidates the financial statements of the Company and entities where the group has power over the investees, it is exposed, or has rights, to variable return from its involvements and has the ability to use its power to control and affect its return from the investees or subsidiaries. The consolidated financial statements of the Group consist of operations of the Company and entities controlled the Company or its Subsidiaries made up to 31 December 2019.

SUBSIDIARIES

Subsidiaries are entities that are controlled by the Group. The Group controls an entity when, it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity. Subsidiaries are fully consolidated from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date irrespective of the extent of any non-controlling interests. The interests of non-controlling shareholders are stated at the non-controlling proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the non-controlling interests in excess of the non-controlling interests are allocated against the interests of the parent.

The excess of cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair value of identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in the consolidated statement of profit or loss and comprehensive income.

All intra-group transactions, balances, and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. A joint venture is a joint arrangement where the parties to the joint venture have rights to the net assets of the joint arrangement and have contractually agreed sharing of joint control over the relevant activities through which the parties to the arrangement can participate to the decision making of the relevant activities require unanimous consents and joint control.

EQUITY METHOD

Under equity method of accounting, the investments in associates or a joint venture is initially recognised in the consolidated financial position at cost and adjusted by the post-acquisition changes in the Group's share of the profit or loss and other comprehensive income and the net assets of the associate or a joint venture, less any impairment in the value of individual investments. The results, assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting except when classified as held for sale. Losses of the associates or a joint venture in excess of the Group's interests in those associates or joint venture are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in associates or a joint venture is accounted under equity method of accounting from the date of acquisition. Any excess of cost of acquisition over the Group's share of the fair values of identifiable net assets of the associate or a joint venture at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of identifiable net assets of the associate or a joint venture at the date of acquisition (i.e. discount on acquisition) is recognised in the consolidated statement of profit or loss and comprehensive income.

When the investment in associates or a joint venture is classified as held for sale or ceases to be an associates or a joint venture, from that date, the group discontinue the use of equity accounting. When a partial sale of an associate or a joint venture which results in losing significant influence over that associate or a joint venture, the remaining investment is measured at fair value on the date of sale and recognised as a financial asset. The differences between the attributable shares of carrying amount for the retaining interest in that associate or a joint venture and its fair value is included in the determination of gain or loss of the disposal of the associates or a joint venture. In addition, the Group reclassifies the gains or losses from equity, previously recognised in the other comprehensive income to the statement of profit or loss and comprehensive income.

Where a Group company transacts with an associate or a joint venture of the Group, profits and losses are eliminated to the extent of the Group's interests in the relevant associate or a joint venture. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

INVESTMENT IN JOINT OPERATION

A joint operation is an arrangement where Group entities have joint control of an arrangement and have legally binding rights to the assets and obligations for the liabilities of the arrangement. A Joint control is a legally agreed sharing of control of an arrangement and all the relevant activities of the arrangement require unanimous consent of the parties sharing control.

When the Group entity carry out its activities under joint operations, the Group recognises its interest under the joint operation as follows:

- The asset belongs to the Group, including its share of any assets acquired and held jointly;
- The Liabilities associated with the Group, including its share of any liabilities incurred jointly;
- Group's share of revenue arising from the joint operation;
- Group's expenses, including the share of expenses incurred jointly in the joint operations.

The Group accounts for the assets, liabilities, revenues and expenses associated with its interest in a joint operation in accordance with IFRSs applicable to the particular assets, liabilities, revenues and expenses. When the Group entity is a joint operator and the Group is involved with a sale or asset contribution to the joint operation, the profit and losses resulting from such transitions are recognised in the Groups consolidated financial statement only to the extent of other parties' share in the joint operation. When the Group entity is a joint operator and the Group is involved with a purchase transaction with the joint operation, the Group does not recognise the share of its gain or loss until such assets are resold to a third party.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Cost includes all directly attributable expenses incurred in bringing the property and equipment to their present location, condition until the property and equipment is available for use. The management periodically review and reassess the estimated future useful life and residual value and accordingly may change or modify the depreciation rates.

Depreciation is charged so as to write off the cost less estimated residual value of assets, other than land, over their estimated useful lives, using the straight-line method, on the following rates:

Buildings	3%
Leasehold improvements	5% - 20%
Vehicles	25%
Machinery and tools	20%
Office equipment	20% - 25%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in consolidated profit or loss.

At each reporting date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in consolidated profit or loss immediately.

INVESTMENT PROPERTIES

Investment properties principally comprise completed projects (including properties and developed land held for long term capital appreciation) and projects under development (including property projects under construction, land projects under development and land waiting for development). Investment properties are held to earn rentals and/or for capital appreciation or both, rather than for sale in the ordinary course of business or for use in production or administrative function. Projects under development include those properties in progress of development or waiting for development to commence. These properties are not used for generating sales revenues through normal business operations. The investment properties are initially recognised at cost and the cost of an acquisition is measured at fair value of the assets acquired / transferred. All developments costs (design, development and staff cost) that are directly attributable to the acquisition/ development of the properties are capitalized to derive the total cost.

An investment property is derecognised on sale or disposal when permanently withdrawn or transferred to development properties. Any gain or loss arising from derecognition of the property is recognised in consolidated profit or loss immediately.

Investment properties are held to earn rentals and/or for capital appreciation, are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost less estimated residual value of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following basis:

Buildings	3%

Gains or losses arising from the retirement or disposal of investment properties being the difference between the net disposal proceeds and carrying value are included in the consolidated profit or loss for the year of the retirement/disposal except those that relate to sale and leaseback arrangements.

DEVELOPMENT PROPERTIES

All development properties are initially measured at acquisition cost and subsequently measured and accounted for lower of cost and net realisable value. This principally consists of projects under progress and land parcels under development for sales in the ordinary course of business, rather than to be held for rental or capital appreciation. Cost comprises all directly attributable cost including direct material cost, direct labour costs, borrowing costs and those overheads that have been incurred in bringing the development properties to their present location and condition. Cost is calculated using the average method. Impairment is tested comparing with net realisable value, which represents the estimated selling price less all estimated costs to completion and selling costs to be incurred.

The operating cycle of development properties is such that the majority of development properties are held for longer period and will not be realised within 12 months. If there is a change in management intention and identify any development property for immediate sale, then the same is split between long-term and short-term development properties representing non-current and current portion of development properties respectively.

At each reporting date management categorises development properties projects as long term or short term depending on its estimated completion date. If the completion date of a project is expected to be within a year from the date of the consolidated statement of financial position, the project is classified as short term development properties.

IMPAIRMENT OF TANGIBLE ASSETS

At each reporting date, the Group reviews the carrying amounts of its tangible assets for any indication that those assets have suffered impairment losses. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. When such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in the consolidated profit or loss.

ISLAMIC BORROWING COSTS

Islamic borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. During the year the Company has not capitalised any portion of its borrowing cost. All other borrowing costs are recognised as finance costs in the consolidated profit or loss in the period in which they are incurred

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the Group's consolidated statement of financial position when the Group has become a party to the contractual provisions of the instrument.
The Group initially measure financial assets and financial liabilities at their fair value. All directly attributable transaction costs for the origination, acquisition or issuance of a financial assets and financial liabilities (except for financial assets and financial liabilities accounted at fair value through profit or loss) are added or deducted, as appropriate, from the respective fair value of the financial assets or financial liabilities on initial recognition. Transaction costs that are incurred for financial assets or financial liabilities accounted at fair value through profit or loss are recognised immediately in the consolidated profit or loss.

CLASSIFICATION AND MEASUREMENT – FINANCIAL ASSETS

Classification and measurement of financial assets are based on the underlying business model and estimated cash flows on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Any derivatives embedded in the contracts are not separated and is considered as a whole for classification. The financial assets are principally categorised as under;

- Measured at amortised cost
- Fair value through other comprehensive income(FVTOCI)
- Fair value through profit or loss (FVTPL)

Financial assets that are initially recognised at fair value are subsequently measured at amortised cost based on expected credit loss (ECL) described below:

- 12-month expected credit losses- expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date.
- Lifetime expected credit losses- expected credit losses that result from all possible default events over the life of the financial instrument.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on:

- Debt investments measured subsequently at amortised cost or at FVTOCI;
- Lease receivables;
- Trade receivables and contract assets; and
- Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition, as well as to contract assets or trade receivables that do not constitute a financing transaction in accordance with IFRS 15.

TRADE RECEIVABLES

Trade receivables are classified as financial assets and are initially recognised at the amount of consideration/ transaction price unless they contain significant financing components, when they are recognised at fair value. The Group do not charge interest on trade receivable and holds the principal outstanding of the trade receivables with the objective to collect the contractual cash flows therefore measures them subsequently at amortised cost using the effective interest method less any provision for impairment for expected credit loss. The Group assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. This assessment of impairment requires judgment. In making this judgment, the Group evaluates credit risk characteristics that consider past default experience of the customer and analyse the general economic conditions of the industry in which the customers operate and current financial position specific to the customers and an assessment of both the current as well as the forecast direction of past-due status and other loss event factors being indicative of the ability to pay all amounts due as per contractual terms at the reporting date. A provision for credit loss is made where there is an objective evidence, including customers with financial difficulties or in default on payments, that amounts will not be recovered in accordance with original terms of the agreement and the carrying value of the receivable exceeds the present value of the future cash flow discounted using the original effective interest rate. The carrying value of the receivable is reduced with the provision for expected credit loss and any impairment loss is recognised in the consolidated profit or loss.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand and at bank and other short-term deposits held by the Group with original maturities of three months or less.

HELD FOR TRADING INVESTMENTS

Held for trading investments are recognised initially at fair value; transaction costs are taken directly to the consolidated statement of income and thereafter stated at fair value by reference to exchange quoted market bid prices at the close of business on the consolidated balance sheet date. The unrealized and realized gains and losses from sale of held for trading investments are recorded in the consolidated statement of income.

FINANCIAL LIABILITIES

Financial liabilities include Islamic Sukuk and Islamic Murabaha and are classified according to the substance of the respective contractual arrangement and are initially measured at their fair value, net of transaction costs. Financial liabilities are subsequently carried at their amortised cost, with commission cost being recognised on an effective yield basis in the consolidated statement of profit or loss over the term of the instrument.

TRADE PAYABLES

Trade payables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method.

REVENUE RECOGNITION

The management Revenue represents the sale of completed real estate properties, revenue from construction/ development of real estate properties and leasing of residential properties.

SALE OF COMPLETED PROPERTIES – RECOGNISED AT THE POINT OF SALE:

Real estate properties which are sold as a completed product are immediately recognised as revenue at the point of sale. The revenue for these categories of assets are only recognised when the control with significant risks and rewards of ownership have been transferred to the buyer and the Company had enforceable right to payment for the performance completed. The transfer of ownership and the controls are assessed at the time of legal completion of the sale or transfer of assets. Revenue is measured at the fair value of consideration entitled in a contract.

PROPERTIES CONSTRUCTED/DEVELOPED UNDER CONTRACT WITH CUSTOMER– RECOGNISED OVER THE TIME

The group develop and sale properties under long term construction/development contract or agreement. Usually such contracts are entered before the start of the construction and the terms of the contracts restrict the transfer of asset to another customer and has no other alternative use and the Company had enforceable right to payment for the performance completed to date where the objective and the outcome of such contracts can be estimated reliably, the revenue and cost of such developments are recognised in proportion to the performed/measured stages of completion against the total contractual obligations/ miles stones including variation, claims and incentives at the end of each reporting period, except where the performed work are not a representative of the stage of completion.

Where the outcome of the contract cannot be estimated reliably, the contract revenue is recognised to the extent of cost incurred and probability recoverable against such contract. All the cost incurred is recognised as expenses in the period in which it is incurred.

The Company will recognise all the incremental costs of obtaining or performing a contract as assets if it expects to recover those costs from the transaction price. The incremental costs are those costs that the Company would not have incurred if the contract had not been obtained. All costs to fulfil its obligations under an existing contract, or an anticipated contract, are capitalised in accordance with IFRS 15 if the costs:

- directly relates to such specific contract;
- are expected to be recovered.
- Create, enhance or generate the resources of the company which will be used in performing the current or future performance obligations

All asset recognised in relation to contract costs is systematically amortised on a basis consistent with the pattern or proportion of transfer of the obligation under the contract to which the asset relates.

If the overall amortisation period of such expenses is one year or less the Company may expense such cost when incurred. All advance payments and the milestone payment which received in excess of the revenue recognised to date will be recognised as contract liability. Considering the short period between the milestone payment and revenue recognition under the cost-to-cost method there is not considered to be a significant financing component in the construction contracts with customers.

The Company will follow an impairment test to assess the carrying value of such assets and when it is probable that the total contract cost will exceed total contract revenue, the estimated loss is recognised as expenses immediately

LEASES

With respect to lease rental income, the Group recognises revenue on a straight line basis over the lease term.

ZAKAT

Zakat is calculated pursuant to Zakat Regulation in the Kingdom of Saudi Arabia and recognised in the respective subsidiaries or in the consolidated statement of profit or loss in each year. The provision is based on an estimate of Zakat that is adjusted in the financial period in which the final assessment of Zakat is issued by the General Authority of Zakat and Tax ("GAZT"). Any change in the estimate resulting from the final assessment is recognised in that period.

FOREIGN CURRENCIES

Transactions in currencies other than Saudi Riyals, the presentational and functional currency of each subsidiary within the Group, are recorded at the rates of exchange prevailing on the dates of the transactions. At the reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary assets and liabilities carried at fair value, that are denominated in foreign currencies, are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. The resulting exchange gains or losses are recognised in the consolidated statement of profit or loss and comprehensive income.

STATUTORY RESERVE

According to the article (129) of the Companies' Regulation (Amendment 2016), the Group is required to retain 10% of net income in the statutory reserve. The Group may stop the transfers when this reserve reaches 30% of the share capital. This reserve is not available for dividend distribution.

END OF SERVICE INDEMNITIES

The Group provides end of service benefits to its employees in accordance with the labour law provisions of Saudi Arabia. The entitlement to these indemnities is based upon the employee's final salary, length of service and the completion of a minimum service period. The costs of these indemnities are accrued over the period of employment, based on the estimated ultimate payment.

Re-measurements, comprising of actuarial gains and losses, are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income, in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

RETIREMENT BENEFIT COSTS

The Group makes contributions in line with the General Organisation for Social Insurance Regulations and are calculated as a percentage of employees' wages. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan. Payments made to defined contribution retirement benefit plans are charged as an expense as they fall due.

PROVISIONS

A provision is recognised if, as a result of past events, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation.

GROUP AS A LESSOR

Rentals receivable under leases are recognised to the consolidated profit or loss on a straight-line basis over the term of the relevant lease.

GROUP AS A LESSEE

At the inception of non-cancellable leases an asset identified as "right-of-use assets" measured at cost with appropriate discounting applied on relevant components of lease term and payment obligations including initial direct cost, lease escalations and lease incentives mentioned in the underlying lease agreement. Subsequent to the initial measurement and recognition, the "right-of-use assets" are periodically measured by using cost model which comprises initially measured cost and any re-measurement adjustments less accumulated depreciation.

Corresponding to this commencement date a "lease liability" is measured at the net present value of all the unpaid lease payments as on that date discounted by using the rate implicit in the lease, if this rate cannot be readily determined, the Group uses its incremental borrowing rate. Subsequent to the initial measurements "lease liability" are periodically measured by increasing the carrying cost to reflect the interest charge on unpaid future lease liability and any re-measurement adjustment less lease payments made up to that date.

The depreciation cost for "right- of-use assets" and the interest cost for "lease liability" is charged to the consolidated profit or loss as depreciation and finance charges.

In case of existing, short term, small value leases the entity continues to charge the periodic lease payments to the consolidated profit or loss as an expense on straight-line basis over the term of the relevant lease.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience, internal controls, advice from external experts and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting judgments will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial periods are discussed below:

REVENUE RECOGNITION

The Group recognises revenue (refer note 2.11) when the control with significant risks and rewards of ownership is transferred to the buyer. The Group measures the revenue based on the consideration entitled in a contract with a customer excluding amounts, if any, collected for and on behalf of third parties.

With respect to land properties/projects, the Group receives an initial non-refundable deposit upon signing the sale contract with the balance being paid on a deferred basis, which typically does not exceed three months. The Group recognises the full amount of the consideration as revenue at the point in time when the control of the property is transferred to the buyer through a legally enforceable sale contract is signed between the buyer and the Group.

With respect to residential and commercial projects, the Group typically receives an initial deposit on the signature of the sales contract and the balance is collected over a period as per the terms of the contract. Revenue from the sale of these properties is only recognized at the point in time when the control of the property is transferred to the buyer through a legally enforceable sale contract is signed between the buyer and the Group and the completed property is delivered to the purchaser.

With respect to residential and commercial projects sold under a construction contract, usually such contracts are entered before the start of the construction and the terms of the contracts restrict the transfer of asset to another customer and has no other alternative use and the Company had enforceable right to payment for the performance completed to date where the objective and the outcome of such contract or agreement can be estimated reliably, the revenue and cost of such developments are recognised when the control is passed with significant risks and rewards of ownership to the buyer. The revenue against these customer contract is recognised over the time as per under IFRS 15 in proportion to the performed/measured stages of completion against the total contractual obligations/milestones including variation, claims and incentives at the end of each reporting period, except where the performed work are not a representative of the stage of completion.

A performance obligation is considered satisfied over the time when at least one of the following criteria is met:

- The customer receives and consumes the benefits of the Companies' performance as it performs.
- The performance creates and enhances the value of the customer-controlled asset.
- The Company has no alternative use to the asset being created and has the legally enforceable right to payment for all obligations performed or completed to date.

With respect to lease rental income, the Group recognises revenue on a straight line basis over the lease term in accordance with IFRS 16.

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RECOGNITION OF COST OF SALES

The Group has developments which typically contain a number of individual projects within each development. In order to determine cost of sales related to properties or units sold during the year the management estimates and average the costs of the entire developments, including infrastructure costs and overall construction and other directly attributable costs to arrive the total estimated cost of the project. These estimated costs are allocated to each project within the development and each unit within a project. These estimates are reviewed regularly on a profit per project basis and revised as necessary. Any significant change in these estimates may result in additional costs being recorded in future periods related to revenue recognised in a prior period.

MEASUREMENT OF CONTRACT ASSETS AND TRADE RECEIVABLES

The group management makes significant assumptions on the estimation of expected credit loss (ECL) in connection with contract assets and/or trade receivables which is assessed based on the terms of contracts. The Group assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. This assessment of impairment requires judgment. In making this judgment, the Group evaluates credit risk characteristics giving considerations for past default experience of the customer, analyse the general economic conditions of the industry in which the customers operate, current financial position specific to the customers and an assessment of both the current as well as the forecast direction of past-due status and other loss event factors being indicative of the ability to pay all amounts due as per contractual terms at the reporting date. A provision for credit loss is made where there is an objective evidence, including customers with financial difficulties or in default on payments, that amounts will not be recovered in accordance with original terms of the agreement and the carrying value of the receivable exceeds the present value of the future cash flow discounted using the original effective interest rate.

Based on such periodic assessment the Company recognise for full lifetime expected losses for all contract assets and/or all trade receivables with or without significant financing transaction and for lease receivables. For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit losses in accordance with IFRS 9.

CLASSIFICATION OF PROPERTIES

The Group's properties are classified as either investment properties or development properties. Management has made various judgments to determine whether a property qualifies as an investment property which is held to earn rentals and/or for capital appreciation or both. These are not used for generating sales revenues through normal business operations. A development property comprises completed properties, developed land, property projects under construction, land projects under development and land awaiting development predominantly identified for sale in the ordinary course of business. In making its judgment, management considers its intended use of property. When management assess that certain investment properties will be disposed as part of normal business operation, their carrying cost will be transferred to development properties for final completion of development and transfer.

SUBSEQUENT TRANSFER OF INVESTMENT PROPERTIES

Investment properties are the interests in land and/or buildings that are held for their investment potential and not for sale in the ordinary course of business. Management assesses the intended use of its real estate properties on continuous basis and summarises the portfolio at every reporting period. When the periodic management assessment identifies any change in the use of a property previously classified as investment properties, their carrying cost is transferred to development properties for further development and final transfer under ordinary course of business. While re-assessing the intended use, management considers the holding period, possibility of further appreciations, related economic activities around such properties and need for further development to make the property ready for sale.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with the intent to sale.

CARRYING VALUE OF DEVELOPMENT PROPERTIES

The Group's principal activity is currently the development and sale of land, residential and commercial property. Due to the nature of this activity, much of the development is speculative in nature. Accordingly, the consolidated statement of financial position at 31 December 2019 reflects current assets that are not covered by forward sales contracts.

The Group assesses the net realisable value of its development properties at each reporting date. This assessment is based on a profit per project basis and compares the carrying and estimated future costs to complete with the expected selling price per unit based on historical activities and available comparable in the surrounding location. As a result of this process, there have been no instances where the estimated net realisable value of the site/unit was less than its current carrying value within the consolidated statement of financial position. A change of these estimates in the future could have an impact on the valuation of the development properties.

FAIR VALUE MEASUREMENTS

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, regardless of whether that price is directly observable or estimated using another valuation technique.
While estimating the fair value of an asset or a liability the group take into consideration of the assumptions that market participants would use when pricing the asset or liability for their best economic interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the best use or by selling it to another market participant for the best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.
For the financial reporting purpose, The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities;

- **Level 1:** Quoted prices in active markets for the same instrument (i.e., without modification or additions);
- **Level 2:** Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data and;
- **Level 3:** Valuation techniques for which any significant input is not based on observable market data.

For the determination of the fair value of the properties, valuations are arrived internally by using group management's subjective expertise and location knowledge together with comparable transactions recorded in the surrounding area for non-related arms lengths transactions. The group also engage third party independent real estate valuation experts using recognised valuation methods to value the properties wherever it is possible and practical. The fair value arrived using these methodologies disclosed as a percentage (%) of net-margin over the carrying cost.

The group also estimates the fair value of its investment properties and development properties by using the Internal Rate of Return and Income Capitalisation Method.

Under IRR method the group estimates future cash flows from assets considering future revenue streams, development costs and all directly attributable cost including financing cost, market risk and targeted profit. These assumptions and estimates are reviewed periodically based on the market conditions existing at the end of every reporting period, to arrive a targeted IRR.

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Under capitalisation method the income receivable under existing lease agreements are extrapolated to arrive at projected future rental revenues, which is capitalised at appropriate rates reflecting the investment market conditions at the valuation dates.

The groups future rental stream estimations are based on certain assumptions and are subject to market volatility, uncertainty and can materially differ from the actual results. The absence of well-developed and active market condition brings greater degree of uncertainty and volatility to estimated fair valuation of investment properties than which exists in a more active market.

	2018 Range	2019 Range
Profit margin on carrying cost –development properties	20% - 25%	20% - 25%
Targeted IRR –development properties	4-6%	4-6%
Estimated Capitalisation of yields- investment properties	6-8%	6-8%

REPORTING SEGMENTS

Management has organised the Group majorly into two segments for the purpose of reporting to the chief operating decision maker. Management develops its strategic planning, resource allocation and business model around these segments and therefore Group's reportable segment under IFRS 8 is as follows:

• Development Properties – The Group Categorise all its real estate properties under development and sale into development properties, it includes the residential and commercial properties completed or constructed under a customer contract and the sale of units on such projects ("Residential and Commercial Projects"), land and investment in land properties which are undeveloped, developed with or without infrastructure development and the sale of such properties ("Land Projects").

• Asset Management – leasing and management of properties that the Group has retained as rental properties including commercial and residential units on its Master-Planned Communities for generating recurring revenues.

Group does not allocate share of profits of associates, general administration, selling and marketing costs including directors' salaries, finance costs, other income and Zakat expense to its segments. Substantially all of segment operating activity (including revenue and costs) for the year ended 31 December 2019 and 31December 2018 was generated from the development properties segment. The Group provided breakdown of revenue, profit, assets and liabilities by operation segment. The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 2.

The Group mainly in Saudi Arabia and all its revenues are derived from its portfolio of properties which the Group manages.

Depreciation is charged so as to write off the cost less estimated residual value of assets, other than land, over their estimated useful lives, using the straight-line method, on the following rates:

	For the year ended 31 December 2019			
	Notes	Sale of Developed Properties	Leasing of Properties	Group Total
		SR 000	SR 000	SR 000
SEGMENT WISE PROFIT & LOSS				
Revenue		**3,350,214**	**141,642**	**3,491,856**
Cost of revenue		(2,622,386)	(45,030)	(2,667,416)
GROSS PROFIT		**727,828**	**96,612**	**824,440**
Operating expenses:				
General and administrative expenses	19			(174,787)
				649,653
OPERATING PROFIT				
Finance costs	20			(478,418)
Other income, net				133,269
Share of net profit from associates and joint ventures	8a			7,885
SEGMENT PROFIT FOR THE YEAR				**312,389**
SEGMENT WISE ASSETS & LIBILITIES				
TOTAL ASSETS		27,060,431	988,798	28,049,229
TOTAL LIABILITIES		**8,211,424**	**828,317**	**9,039,741**

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	For the year ended 31 December 2018			
	Notes	Sale of Developed Properties	Leasing of Properties	Group Total
		SR 000	SR 000	SR 000
SEGMENT WISE PROFIT & LOSS				
Revenue		6,276,487	135,778	6,412,265
Cost of revenue		(5,284,947)	(70,167)	(5,355,114)
GROSS PROFIT		**991,540**	**65,611**	**1,057,151**
Operating expenses:				
General and administrative expenses	19			(168,942)
OPERATING PROFIT				888,209
Finance costs	20			(511,652)
Other income, net				129,866
Share of net profit from associates and joint ventures	8a			**15,432**
SEGMENT PROFIT FOR THE YEAR				521,855
SEGMENT WISE ASSETS & LIBILITIES				
TOTAL ASSETS		23,197,571	3,549,746	26,747,317
TOTAL LIABILITIES		7,977,247	64,737	**8,041,984**

INVESTMENT PROPERTIES, NET

The movement in investment properties is as follows:

	2019 SR 000	2018 SR 000
COST		
At beginning of the year	1,965,291	3,637,179
Transfer to development properties	-	(1,672,536)
Additions	3,246	648
At end of the year	**1,968,537**	**1,965,291**
ACCUMULATED DEPRECIATION		
At beginning of the year	272,150	347,169
Transfer to development properties	-	(145,186)
Charged during the year	45,030	70,167
At end of the year	317,180	272,150
CARRYING AMOUNT AT THE END OF THE YEAR	**1,651,357**	**1,693,141**

Included within investment properties is land with an original cost of SR 470 million (31 December 2018: SR 470 million).

Fair value estimation:

Fair value of the investment properties is estimated by a recoganised valuation agency not related to the Group (ValuStrat Saudi Arabia a license member of Saudi Authority of Accredited Valuers) by using income capitalisation method in December 2019, the range of capitalisation rates are determined based on the nature and the highest and the best designated use of the assets and various external references for similar type of assets. There has been no change in the valuation technique during the year. The annualised lease cash flows are estimated by extrapolating and adjusting current lease revenues for optimal occupancy and capitalising it at an annual rent yield of 6-8% between residential and commercial leased properties to arrive the fair value estimated as below:

	2019 SR 000	2018 SR 000
COST	1,651,357	1,693,141
ESTIMATED FAIR VALUE		
Estimated on rent yield of 6-8 % on Investment properties	1,927,484	1,927,484

The fair valuation of investment properties is categorised under Level 2 in the fair value hierarchy

DEVELOPMENT PROPERTIES

The movement in development properties, the principle operation of the Company, are summarised as follows:

	Year ended 31 December 2019				
	Short-term Developed Projects SR 000	Short-term Developed land SR 000	Developed land/ Projects SR 000	Projects under Developments SR 000	Total SR 000
COST					
At beginning of the year	36,473	312,856	1,954,202	12,194,060	14,497,591
Additions during the year	-	8,187	17,186	5,329,976	5,355,349
Transfer, net	-	-	(458,676)	458,676	-
Charged to cost of sales during the year	(22,566)	-	(104,150)	(2,495,670)	(2,622,386)
CARRYING AMOUNT AT THE END OF THE YEAR	13,907	321,043	1,408,562	15,487,042	17,230,554
Short- term development properties					334,950
Long-term development properties					16,895,604

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	Year ended 31 December 2018				
	Short-term Developed Projects SR 000	Short-term Developed land SR 000	Developed land/ Projects SR 000	Projects under Developments SR 000	Total SR 000
COST					
At beginning of the year	49,227	73,448	775,030	13,976,535	14,874,240
Additions during the year	1,278	-	20,070	3,359,600	3,380,948
Transfer, net	6,497	239,408	1,934,132	(652,687)	1,527,350
Charged to cost of sales during the year	(20,529)	-	(775,030)	(4,489,388)	(5,284,947)
CARRYING AMOUNT AT THE END OF THE YEAR	36,473	312,856	1,954,202	12,194,060	14,497,591
Short- term development properties					349,329
Long-term development properties					14,148,262

Projects under development includes investment in land and joint development worth SR 12.08 billion (31 December 2018: SR 8.6 billion), which represents the Group's share of co-ownership with others and advances made for joint development with third parties according to the contracts of land development.

During the year ended 31 December 2019 the Group has capitalised Islamic borrowing costs amounting to SR nil (31 December 2018: nil) on qualifying assets. Islamic borrowing costs were capitalised at an annual weighted average capitalisation effective rate of 0% (31 December 2018: 0%).

Fair value estimation:

During the period the Group's management and directors conducted an internal review and valuation of the real estate portfolio of development properties which resulted in a fair value indicating an average uplift of 20% (31 December 2018: 20%) across the development property portfolio. The management believes that the resultant uplift on the book value is a conservative indication of the fair value of the properties of the Group.

In view of the continuing volatility and uncertainty in the real estate market the transaction volumes are showing considerable stabilisation on lowering price trend. Hence to normalise the fair value assumptions along with known comparable transaction at arms-length around properties, the management included additional valuation methodologies and measures of average IRR in the range of 4-6% for development properties to arrive at the fair value estimate.

	Year ended 31 December 2019				
	Short-term Developed Projects SR 000	Short-term Developed land SR 000	Developed land/ Projects SR 000	Projects under Developments SR 000	Total SR 000
COST	13,907	321,043	1,408,562	15,487,042	17,230,554
ESTIMATED FAIR VALUE					
Estimated @ 20% margins on cost – Land	14,000	384,000	1,680,000	16,500,000	18,578,000
Estimated @ 4-6 % IRR – Land	15,000	330,000	1,980,000	16,937,000	19,262,000
Average fair value on land	14,000	357,000	1,830,000	16,720,000	18,921,000
Estimated fair value	14,000	350,000	1,800,000	16,700,000	18,864,000

	Year ended 31 December 2018				
	Short-term Developed Projects	Short-term Developed land	Developed land/ Projects	Projects under Developments	Total
	SR 000	SR 000	SR 000	SR 000	SR 000
COST	36,473	312,856	1,954,202	12,194,060	14,497,591
ESTIMATED FAIR VALUE					
Estimated @ 20% margins on cost – Land	37,000	375,000	2,344,000	14,630,000	17,386,000
Estimated @ 4-6 % IRR – Land	37,000	313,000	1,954,000	15,818,000	18,122,000
Average fair value on land	37,000	344,000	2,149,000	15,224,000	17,754,000
Estimated fair value	37,000	340,000	2,140,000	15,200,000	17,717,000

Sensitivity in fair value estimation:

The estimated fair value of Group's investment properties and development properties can be impacted by the

occurrence of interrelated unobservable inputs determined by existing market conditions. The impact of two unobservable inputs may not be off-setting each other; for example, an increase in capitalisation rate may off- set an increase in annual rent but an increase in annual rent with a decrease in capitalisation rate would boost the fair value.

	Increase SR 000	Decrease SR 000
Change in fair value on land		
10% change in comparable margins	1,723,000	(1,723,000)
1% change in IRR	490,000	(459,000)
Average change in fair value on land	**1,106,000**	**(1,091,000)**
Change in fair value on Properties		
50 basis points change in capitalisation rate	181,500	(155,500)
Sensitivity impact on estimated fair value	**1,287,500**	**(1,246,500)**

The fair valuation of investment properties are categorised under Level 3 in the fair value hierarchy

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PROPERTY AND EQUIPMENT, NET

31 DECEMBER 2019	Land and buildings	Leasehold improvement	Vehicles	Machinery and tools	Office equipment	Total
	SR 000	SR 000	SR 000	SR 000	SR 000	SR 000
COST						
Balance at 1 January 2019	114,538	9,575	8,018	17,644	55,386	205,161
Additions for the year	459	166	-	301	5,367	6,293
Transfer	-	(58)	-	-	58	-
Balance at 31 December 2019	**114,997**	**9,683**	**8,018**	**17,945**	**60,811**	**211,454**
ACCUMULATED DEPRECIATION						
Balance at 1 January 2019	51,290	6,639	7,937	14,192	44,212	124,270
Depreciation for the year	3,192	595	23	864	3,775	8,449
Transfer	-	(210)	-	-	210	-
Balance at 31 December 2019	**54,482**	**7,024**	**7,960**	**15,056**	**48,197**	**132,719**
CARRYING AMOUNT						
AT 31 DECEMBER 2019	60,515	2,659	58	2,889	12,614	78,735

31 DECEMBER 2018	Land and buildings	Leasehold improvement	Vehicles	Machinery and tools	Office equipment	Total
	SR 000	SR 000	SR 000	SR 000	SR 000	SR 000
COST						
Balance at 1 January 2018	109,145	6,143	8,447	13,811	48,672	186,218
Additions for the year	5,393	3,432	93	3,833	6,714	19,465
Transfer	-	-	(522)	-	-	(522)
Balance at 31 December 2018	**114,538**	**9,575**	**8,018**	**17,644**	**55,386**	**205,161**
ACCUMULATED DEPRECIATION						
Balance at 1 January 2018	48,155	6,024	8,445	13,530	41,624	117,778
Depreciation for the year	3,135	615	14	662	2,588	7,014
Transfer	-	-	(522)	-	-	(522)
Balance at 31 December 2018	**51,290**	**6,639**	**7,937**	**14,192**	**44,212**	**124,270**
CARRYING AMOUNT						
AT 31 DECEMBER 2018	63,248	2,936	81	3,452	11,174	80,891

INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

Investments in associates and joint venture represent investments in shares of companies, where the Group exercises significant influence. The shares of these companies are not publicly traded. The Group's ownership in these Saudi Arabia based privately owned companies ranges from 15% to 51%. For entities where the investment is less than 20%, management believes that it is able to exert significant influence due to its involvement at board level. Movement in investments in associates and joint ventures is as follows:

a. Investments in associates and joint ventures:

	2019 SR 000	2018 SR 000
Investments, beginning of year	826,621	811,189
Additions	320,000	-
Share of profit during the year	7,885	15,432
Investments, end of year	**1,154,506**	**826,621**

b. Summarised details of holding in respect of the Group's associates and joint venture is set out below:

Name of the entity	Amount invested SR 000	% of Holding
Saudi Home Loans (SHL)	150,000	15%
Alkhair Capital Saudi Arabia (ACS)	422,000	42.2%
Khozam Real Estate Development Company (i) (KDC)	525,547	51%
Juman company	1,500	18%
Accumulated share of profits	55,459	
Balance, end of the year	**1,154,506**	

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c. Summarised financial information in respect of the Group's associates and joint venture is set out below:

31 DECEMBER 2019	Juman SR 000	KDC SR 000	ACS SR 000	SHL SR 000	TOTAL SR 000
Total assets	8,200	541,966	1,007,418	4,411,993	5,969,577
Total liabilities	-	(36,532)	(11,631)	(2,911,904)	(2,960,067)
Net assets	8,200	505,434	995,787	1,500,089	3,009,510
KDC net assets includes SAR 250 mn of exclusivity right- refer below note c(iii)	-	250,000	-	-	250,000
Group's share of net assets	**1,500**	**507,771**	**420,222**	**225,013**	**1,154,506**
Total revenue for the year	-	-	62,782	311,369	374,151
Total profit for the year	-	493	6,433	54,661	61,587
Other comphrehensive income for the year	-	-	-	-	-
Total cumulative earning at end of the year	-	(35,277)	(7,057)	500,089	457,755
Total cumulative earning at end of last year	-	(35,769)	(14,405)	469,870	419,696
Change for the year	-	492	7,348	30,219	38,059
Group's share of cumulative profit for the year	**-**	**251**	**3,101**	**4,533**	**7,885**

31 DECEMBER 2018	Juman SR 000	KDC SR 000	ACS SR 000	SHL SR 000	TOTAL SR 000
Total assets	-	541,481	303,915	4,375,822	5,221,218
Total liabilities	-	(36,504)	(18,320)	(2,905,951)	(2,960,775)
Net assets	-	504,977	285,595	1,469,871	2,260,443
Group's share of net assets	**1,500**	**507,538**	**97,102**	**220,481**	**826,621**
Total revenue for the year	-	-	76,113	171,294	247,407
Total profit for the year	-	(159)	25,984	67,700	93,525
Total cumulative earning at end of the year	-	(35,769)	(14,405)	469,870	419,696
Total cumulative earning at end of last year	-	(35,610)	(44,356)	434,340	354,374
Change for the year	-	(159)	29,951	35,530	65,322
Group's share of cumulative profit for the year	**-**	**(81)**	**10,183**	**5,330**	**15,432**

The relevant financial statements of associates and joint ventures listed above are prepared in the order of liquidity, hence the total of assets and liabilities are considered for reporting. Details of transactions with associates and joint ventures are disclosed under note 23 "Related Party Transactions" of these consolidated financial statements. The nature of relationship and operations of each reported entities are detailed below;

(i) Saudi Home Loans (SHL): The Group had originally invested SAR 120 million representing 15% of the paid up share capital of SHL and during 2017 the SHL increased the paid up share capital by issuing 20 million shares of SR 10 each to its existing shareholders in the same proportion of their shareholding by transferring an equal amount from its retained earnings (by capitalising profit). This increase in share capital was approved in the EGM meeting held on 24 May 2017 and accordingly, the original investment of SAR 120 million has been revised to SAR 150 million to reflect the capital increase.

(ii) Alkhair Capital Saudi Arabia (ACS): The Group had originally invested SAR 102 million representing 34% of the paid up share capital of ACS and during 2019 the ACS increased the paid up share capital by additional SAR 700 million. The Group has acquired additional capital by investing SAR 320 million and accordingly, the original investment of SAR 102 million has been revised to SAR 422 million to reflect the change in capital investment of the Group with ACS.

(iii) Khozam Real Estate Development Company (KDC): The Group had invested 51% in KDC, with Jeddah Development and Urban Regeneration Company (JDURC). As per the arrangements the power to govern the financial and operating activities which affect the returns of KDC is jointly bestowed with the shareholders. Accordingly, the Group does not have any right to variable returns or absolute power to control with the ability to affect the returns of the investee company consequently, the Group's investment in KDC is accounted for as investment in joint venture under equity method of accounting.

The KDC investment include SR 250 million as an exclusive right to participate in the Khozam project development and SR 276 million as capital contributions fully paid in cash. The other shareholder (JDURC) contributed SR 265 million worth of land as capital contribution. The management believes that the value of the total investment has not diminished.

(iv) Eastern Juman Company (Juman): During 2016 the group had invested in Eastern Juman Company a Limited Liability Company established mainly for the development of Juman project located between Dammam and Ras Tanura. The Company is registered in Riyadh under the Commercial Registration No. 1010462791 dated 15/10/1437H, (corresponding to 20/07/2016) with a share capital of SAR 8.2 million. The group has paid SAR 1.5 million towards the 18.29% of its share capital and management believe that the value of the total investment has not diminished or impaired.

OTHER ASSETS (DEFERRED CHARGES), NET

The movement during the year is as below:

	2019 SR 000	2018 SR 000
Balance, beginning of the year	2,511	1,950
Additions during the year	-	1,412
Amortisation charge for the year	(1,010)	(851)
Balance , end of the year	**1,501**	**2,511**

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TRADE RECEIVABLES AND OTHERS

	2019 SR 000	2018 SR 000
Trade receivables – net of allowances for doubtful debts of SR 21.02 million (31 December 2018: SR 19.02 million)	3,226,676	4,015,337
Advance payments to purchase land	559,670	559,670
Accrued revenue	9,991	20,548
Prepayments and others	184,326	144,459
Short term investment- trading (note 10c)	863	863
Total	**3,981,526**	**4,740,877**

The fair value of financial assets included above approximates the carrying amount. No penalties or interests are charged for delayed payments.

Trade receivable disclosed above include amounts (see below for ageing analysis) that are past due from the date of invoice, at the end of the reporting period for which the Group has not recognized an allowance for doubtful debts because there has not been a significant change in credit quality.

a) Ageing of trade receivables that are due but not impairedcharged for delayed payments.

	2019 SR 000	2018 SR 000
0-60 days	501,303	490,553
61-120 days	649,173	980,897
121-180 days	717,683	763,215
Above 180 days	1,358,517	1,780,672
Total	**3,226,676**	**4,015,337**

Ageing are from the date of invoice and the trade receivables include about 97% (31 December 2018: 97%) receivables against land and project sales which are fully secured against such land and project parcels.

b) Expected Credit Loss evaluation of Account receivables

The Group consistently measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the customer/tenant and shall also make a specific analysis of respective customer/ tenant to assess the current financial position and any other related factors along with general economic conditions of the industry in which the customer/tenants operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Group has recognised full credit allowance against all receivables where the analysis has indicated that these receivables are generally not recoverable. The Group has not made any provisions against the receivables against the sale of land and projects and dues and lease receivables from government departments.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period

Movement in the allowance for doubtful debts

	2019 SR 000	2018 SR 000
Balance, beginning of the year	19,019	19,019
Allowance for the year	2,000	-
Balance, end of the year	**21,019**	**19,019**

c) Short term investment – Fair value through profit or loss (FVTPL)

The group has an investment, classified as held for trading, through portfolio management account with a leading Saudi Asset Management broking institution ("fund manager') and as per the portfolio management agreement the fund manager is allowed to trade in Islamic debt and equity securities on behalf of the Group. The transaction during the period is detailed below:

	2019 SR 000	2018 SR 000
Balance, beginning of the year	863	863
Purchased / sold during the year	-	-
Total	**863**	**863**
Realised gains	-	-
Total	**863**	**863**
Transfers/withdrawals	-	-
Balance, end of the year	**863**	**863**

Investment includes SR 863 thousand as at 31 December 2019 (31 December 2018 SR 863 thousand) representing cash deposit held with the fund manager. The funds are expected to be invested in the subsequent periods.

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CASH AND CASH EQUIVALENTS

	2019 SR 000	2018 SR 000
Cash in hand	937	4,949
Cash with bank	3,949,083	4,898,542
Total	**3,950,020**	**4,903,491**

LONG-TERM BORROWINGS

	2019 SR 000	2018 SR 000
Islamic Sukuk	6,000,000	5,250,000
Islamic Murabaha	1,832,450	1,413,475
Total	**7,832,450**	**6,663,475**
Less: Un-amortised transaction costs (note 12 b)	(99,767)	(82,685)
Borrowings end of the year	**7,732,683**	**6,580,790**
Less:		
Borrowing -short-term maturity portion	(405,943)	(1,849,623)
Borrowing -long-term maturity portion	**7,326,740**	**4,731,167**

a. Repayable as follows:

	2019 SR 000	2018 SR 000
Within one year	411,400	1,860,525
In the second year	98,300	351,300
In the third to fifth years inclusive	7,322,750	4,451,650
Total	**7,832,450**	**6,663,475**

b. Islamic borrowings transaction costs:

	2019 SR 000	2018 SR 000
Balance, beginning of the year	82,685	80,856
Additions during the period/year	50,191	39,274
Amortisation charge for the period/year	(33,109)	(37,445)
Balance, end of the year	**99,767**	**82,685**

c. Analysis of borrowings:

This represents SR 6 billion of Islamic Sukuk comprising:

1) SR 1.88 billion (USD 500 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 6.88% and maturing in 2022.

2) SR 1.88 billion (USD 500 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 6.88% and maturing in 2023.

3) SR 2.25 billion (USD 600 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 6.75% and maturing in 2025.

Islamic Sukuks listed above are denoted in US dollars. Since the Saudi Arabian Riyal is limited to fluctuations in the US Dollar there is no exposure to foreign exchange risk. The investment profit is payable to the Saudi SPV, through which the Sukuk was issued, by the sale of properties owned by the Group. The beneficiary rights of these properties are with Dar Al Arkan Real Estate Development Company and its subsidiaries with the rights to buy back the ownership of these properties upon the full repayment of the Sukuk. The Group has issued a corporate guarantee to the Sukuk holders.

The Sukuk agreements include financial covenants, which the Group was in compliance with as at 31 December 2019.

Islamic Murabaha

This represents the bilateral Murabaha facilities from local and international commercial banks, secured against certain real estate properties, in the form of Islamic Murabaha, letters of guarantee and letters of credit. These facilities comprise of long- term and short- term tenures ranging from 6 months to 9 years with various repayment schedules like annual roll revolvers, bullet payments and instalment repayments ranging from quarterly and half yearly as detailed below.

Summary of the Murabahas:

Maturity date	Outstanding Balance SR 000	Short-term SR 000	Long-term SR 000
2020	315,000	315,000	-
2023	495,950	17,400	478,550
2027	242,000	18,000	224,000
2029	779,500	61,000	718,500
TOTAL	**1,832,450**	**411,400**	**1,421,050**

The total weighted average effective annual commission rate for the period ended 31 December 2019 is 6.85% (31 December 2018: 6.88%)

The facility agreements include certain financial covenants, which the Group was in compliance with as at 31 December 2019.

END OF SERVICE INDEMNITIES

The Group provides a defined end of service benefit plan to its employees in line with the labour law provisions and requirement in the Kingdom of Saudi Arabia for respective entities under the Group. The payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of cessation of their employment, as defined by the conditions stated in the labour laws of the Kingdom of Saudi Arabia. Employees' end of service benefit plans are unfunded plans where the respective entities meet the benefit payment obligations as it falls due.

The movement of the obligation accrued is as follows:

	2019 SR 000	2018 SR 000
Balance, beginning of the year	19,011	21,961
Charged to expenses during the year	4,313	4,122
Re-measurement loss/ (gain)	435	(2,974)
Paid during the year	(2,145)	(4,098)
Balance, end of the year	**21,614**	**19,011**

During the year the Group conducted an actuarial valuation and the relevant disclosures are as follows;

A- Significant actuarial assumptions:

	2019	2018
Discount rate	3.0%	3.0%
Long term salary increase rate	3.0%	3.0%
Employee attritions	**Moderate**	**Moderate**

B- Movement in present value of employee benefit obligation

	2019 SR 000	2018 SR 000
Balance, beginning of the year	18,674	21,582
Net period benefit cost	3,600	3,960
Re-measurement loss/ (gain)	435	(2,974)
Paid during the year	(2,004)	(3,894)
Balance, end of the year	**20,705**	**18,674**

C- Analysis of present value of obligation

	2019 SR 000	2018 SR 000
Benefit obligation earned and accumulated to the date of financial position	15,905	14,743
Benefits attributed to future salary increase	4,800	3,931
Balance, end of the year	**20,705**	**18,674**

D- Sensitivity Analysis of obligation

The sensitivity of employee benefit obligation is calculated based on a change in an assumption while all other significant actuarial assumptions, used in the valuations employee benefit obligation, remained unchanged. The vale impact in the obligation with a change in an assumption as follows:

	2019 SR 000	2018 SR 000
Discount rate + 0.5%	19,831	17,976
Discount rate - 0.5%	21,643	19,420
Long term salary increase + 0.5%	21,690	19,472
Long term salary increase - 0.5%	**19,780**	**17,922**

E- Effect of defined benefit plan on entity's future cash flows

The weighted average duration of the employee benefit obligation is 8.73 years for the year ended December 31, 2019 (31 December 2018: 7.72 years). The expected maturity analysis of undiscounted defined benefit obligation is as follows:

	2019 SR 000	2018 SR 000
Within one year	1,010	2,017
In the second year	3,098	3,216
Between third and fifth years	3,564	4,565
Above five years	13,033	8,876
Total	**20,705**	**18,674**

TRADE PAYABLES AND OTHERS

	2019 SR 000	2018 SR 000
Trade payables	270,045	440,472
Due to related parties (note 23a)	189,397	188,862
Accruals	147,782	121,480
Unpaid dividend	35,423	35,443
Lease liability (note 22b)	872	2,047
Contract liabilities (note 14a)	108,590	69,361
Unearned revenue	46,670	27,690
Total	**798,779**	**885,355**

Trade payables and others principally comprise amounts outstanding for trade purchases and on- going costs. The average credit period taken for trade purchases is 30 days (31 December 2018: 30 days).

The fair value of financial liabilities included above approximates the carrying amount.

a) Contract liabilities

Contract Liabilities represents the advance received towards a duly enforceable customer contracts for sale of properties against which the agreed performance obligations are not fully completed.

	2019 SR 000	2018 SR 000
Balance, beginning of the year	69,361	-
Collected during the year	39,229	69,361
Cancellations during the year	-	-
Transfers to cost of revenue during the year	-	-
Balance, end of the year	**108,590**	**69,361**

ZAKAT PROVISIONS

a) The principal elements of the Zakat base are as follows:

	2019 SR 000	2018 SR 000
Zakat base:		
Equity	18,705,333	18,193,550
Provisions and other adjustments	4,757,371	3,841,995
Total Zakat base	**23,462,704**	**22,035,545**
Deductions:		
Total deduction after adjustment	(23,462,704)	(22,035,545)
Zakat base	**-**	**-**

b) Adjusted net income for the year:

	2019 SR 000	2018 SR 000
Adjusted net income:		
Adjusted net income,net	306,953	506,447
Adjusted net income	306,953	506,447
Estimated Zakat and Tax provision for the year	**7,799**	**13,046**

c) The movement in provision for Zakat:

Zakat is recognized and provided for in the financial statements and the movement of Zakat is as follows:

	2019 SR 000	2018 SR 000
Balance beginning of the year	556,828	549,670
Estimated Zakat for the year	7,799	13,046
Paid during the year	(77,962)	(5,888)
Estimated Zakat provision, end of the year	**486,665**	**556,828**

d) The Company has received the assessments from GAZT for the years 2003 to 2014. The company had filed the consolidated zakat return for years 2015 to 2018.

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SHARE CAPITAL

	2019 SR 000	2018 SR 000
Authorised: 1,080,000,000 ordinary shares of SR 10 each Issued and fully paid shares of SR 10 each	10,800,000	10,800,000
At the start of the year	10,800,000	10,800,000
At the end of the year	**10,800,000**	**10,800,000**

The Group has one class of ordinary shares which carry no right to fixed income.

REVENUE

The Group derives its revenue from development properties through contracts with customers for the transfer of goods at a point in time. The below revenue details are consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 (see note 4).

Disaggregation of revenue	Basis of Recognition	For the year ended 31 December 2019 SR 000	 2018 SR 000
Sale of development properties	- At a point in time	3,208,652	6,251,657
Sale of residential properties	- At a point in time	141,562	24,830
Leasing of properties	- IFRS 16	141,642	135,778
Total		**3,491,856**	**6,412,265**

COST OF REVENUE

	For the year ended 31 December 2019 SR 000	 2018 SR 000
Development properties cost	2,495,670	5,264,418
Residential properties-cost	126,716	20,529
Direct cost on leasing – Depreciation	45,030	70,167
Total	**2,667,416**	**5,355,114**

GENERAL AND ADMINISTARTIVE EXPENSES

	For the year ended 31 December	
	2019 SR 000	2018 SR 000
General and administrative expenses	165,174	160,754
Depreciation (refer note 7 & 22a)	9,613	8,188
Total	**174,787**	**168,942**

FINANCE COSTS

	For the year ended 31 December	
	2019 SR 000	2018 SR 000
Charges on Sukuk	330,042	366,563
Charges on Islamic Murabaha	115,217	107,619
Charges on Lease liability (note 22b)	50	25
Amortisation of transaction costs (note 12b)	33,109	37,445

EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	For the year ended 31 December	
	2019 SR 000	2018 SR 000
Earnings		
For the purpose of basic earnings per share (Net profit for the period)	304,590	508,809
Number of shares	**Number**	**Number**
Weighted average number of ordinary shares For the purposes of basic earnings per share	1,080,000,000	1,080,000,000

There is no dilution of ordinary shares and as such the basic and diluted earnings per share calculation are consistent.

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LEASE ARRANGEMENTS

A: GROUP AS LESSEE

a) Right of use assets

Below is the "right of use assets" for the lease arrangements entered and unexpired as at the reporting date, qualifying for accounting under IFRS 16. The details and movements for this assets is summarised as follows, and the depreciation charged to this asset is included in depreciation expenses.

	For the year ended 31 December	
	2019 SR 000	2018 SR 000
COST		
At beginning of the year	3,962	3,668
Additions for the year	-	883
Transfer/ retirements	-	(589)
At end of the year	**3,962**	**3,962**
ACCUMULATED DEPRECIATION		
At beginning of the year	1,768	1,183
Charged during the year	1,164	1,174
Transfer/ retirements	-	(589)
At end of the year	2,932	1,768
NET BOOK VALUE AT THE END OF THE YEAR	**1,030**	**2,194**

The balance in right of use assets are included with the property plan and equipment (refer note 7)

b) Lease liability

The "lease liability" to account for its unexpired lease qualified for accounting under IFRS 16 requirements and the details of the movements are as below. The interest cost accrued is included in the financing charges.

	For the year ended 31 December	
	2019 SR 000	2018 SR 000
LIABILITY		
At beginning of the year	4,719	3,751
Additions for the year	-	883
Transfer/ retirements	-	-
Finance cost for the year	50	85
At end of the year	**4,769**	**4,719**

PAYMENTS		
At beginning of the year	2,672	1,450
Paid during the year	1,225	1,222
At end of the year	3,897	2,672
BALANCE AT THE END OF THE YEAR	**872**	**2,047**

The balance in lease liability is included with trade payables and others (refer note 14)

c) Minimum lease payments

The minimum lease payments under non-cancellable lease rentals are as follows:

	For the year ended 31 December	
	2019 SR 000	2018 SR 000
Amounts due:		
Within one year	729	925
Between one and five years	1,874	2,270
After five years	-	-
Total	**2,603**	**3,195**

B: GROUP AS LESSOR

The Group has investment properties (refer note 5) consists of residential and commercial real estate properties that are retained in its master planned community with an intention to generate consistent recurring income. These properties are leased, both on short term and long term operating lease arrangements to various customers, including corporates, government and individuals for their residential and commercial requirements. For the relevant reporting period, the details of income generated and the direct cost of leasing is detailed segmental reporting (refer note 4).

The minimum lease receivables under non-cancellable lease rentals are as follows:

	2019 SR 000	2018 SR 000
Amounts Receivable:		
Within one year	87,208	72,147
Between one and five years	174,207	172,482
After five years	75,057	35,220
Total	**336,472**	**279,849**

RELATED PARTY TRANSACTIONS

a) Due to related parties

The Khozam Real Estate Development Company (KDC) is a Jointly controlled entity (for further details please refer note 8). The KDC management requested the group to invest excess cash balance of KDC with the group at a nominal profit charged on the average balance, repayable on demand to fund its operational requirements. The details of the transactions, included in trade payable and other (refer note # 14), are as follows:

	2019 SR 000	2018 SR 000
Balance, beginning of the year	188,862	192,530
Repayment of advances for the year	(425)	(4,628)
Profit charged for the year	960	960
Balance, end of the year	**189,397**	**188,862**

b) Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the period are as follows:

	For the year ended 31 December	
	2019 SR 000	2018 SR 000
Short-term benefits	8,247	3,328
End-of-service benefits	476	296
Remunerations and attendance fees to Board of Directors and Executive Committee	-	-
Total	**8,723**	**3,624**

c) Other related party transactions

(i) Saudi Home Loans (SHL):

SHL is an associate of the Group (for shareholding and operational details kindly refer note 8). During the period, the Group sold residential homes to individuals who sought financing from Saudi Home Loans, which is an associate to the Group. In these instances, Saudi Home Loans pays the consideration in respect of the residential property sale to the Group on behalf of the individual. There is no recourse to the Group if such lending by Saudi Home Loans results in nonperforming receivables. The details of the transactions, included in trade receivable (refer note # 10), are as follows:

	For the year ended 31 December	
	2019 SR 000	2018 SR 000
Balance, beginning of the year	-	-
Fees & expenses charged for the year	23,632	-
Amounts paid during the year	(23,632)	-
Balance, end of the year	**-**	**-**

(ii) Alkhair Capital Dubai Ltd.

The Group engaged Alkhair Capital Dubai, an associate entity, to provide general financial advisory, and secondment services to international subsidiaries. The details of the transactions, included in trade payable under trade payable and others (refer note # 14), are as follows:

	2019 SR 000	2018 SR 000
Balance, beginning of the year	-	897
Fees and expenses on indirect engagement with group AlKhair Capital Dubai during the year	2,250	1,445
Amount paid during the year	(2,250)	(2,342)
Balance, end of the year	**-**	**-**

For the year ended 31 December 2019 and 2018, no other transactions are entered into with entities that have common Board Members or Shareholders to the Group.

In addition, the Group entered into certain other transactions with related parties that did not have a significant impact on the financial position or comprehensive income of the Group.

See also note 8.

RETIREMENT BENEFIT PLANS

The Group makes payments to defined contribution retirement benefit plans in the form of the General Organisation of Social Insurance that are charged as an expense as they fall due. Payments are made on the basis of a percentage of qualifying salary for certain employees to this state-managed scheme.

The total cost charged to the consolidated statement of profit or loss and comprehensive income for the period ended 31 December 2019 was SR 4.31 million (31 December 2018: SR 4.12 million), and the outstanding contribution as at 31 December 2019 is SR 321 thousand (31 December 2018: SR 375 thousand).

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CAPITAL MANAGEMENT

The executive committee reviews the capital structure of the Group on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to its parent company through optimisation of debt and equity balances. The Group's overall strategy remains unchanged from 2007, when the Group diversified its sources of funding and issued two medium term Sukuks ranging from 3-5 years. Considering the track record of timely repayment of the first two Sukuk and the group expertise developed over the past five years to access international markets for shariah' compliant funding, the management continue to maintain its relationship with the capital markets and monitor the markets for future issuance. The Group adhere to international best practices in corporate governance and consider the capital market transactions to create additional shareholders value.

The capital structure of the Group consists of net debt (borrowings adjusted with cash and cash equivalents) and equity (comprising share capital, statutory reserve, and retained earnings). The Group is not subject to any externally imposed capital requirements.

Gearing ratio

The Group consistently monitors its gearing ratio, to ensure compliance with external covenant requirements.

The gearing ratio at end of the reporting period was as follows:

	2019 SR 000	2018 SR 000
Islamic borrowings	7,732,683	6,580,790
Cash and cash equivalents and short term deposits	(3,950,020)	(4,903,491)
Net debt	3,782,663	1,677,299
Shareholders' equity	19,009,488	18,705,333
Net debt to equity ratio	**20%**	**9%**

FINANCIAL RISK MANAGEMENT

The Group's principal financial liabilities are mainly comprised of Islamic Murabaha (term and annual revolving) facilities taken from banks, issue of Islamic Sukuk, trade payable and other payables to contractors and suppliers. The paramount objectives of these financial instruments are to raise the funding base for various projects as well as for the working capital requirement of the Group.

The Group also has financial assets in the form of bank deposits, cash in hand, due from related parties and trade and other receivables, which are integral and directly derived out of its regular business. On the reporting date the Group has not entered into any non-Islamic financial variable instrument contracts by way of currency hedging, commission rate swap agreements or similar instruments.

The Group's financial operations are subject to the following risks:

1. Credit Risk
2. Commission Rate Risk
3. Liquidity Risk
4. Foreign Currency Risk

Credit Risk

The Credit Risk can be defined as a loss of value of an asset as a result of a failure by a customer or a counter party to such commercially valid and legally enforceable contract to comply with its obligations.

The general sales policy of the Group is "No Credit" terms, but in some cases there are enhanced payment schedules or staggered payment request by selected customers which have been accommodated. In such cases the Group has an exposure of credit risk with respect to the amount due from those customers. However, in such cases the Group holds back the final delivery or possession of the property to mitigate the risk until the full amount due is paid to the satisfaction of the contract. The monitoring and follow up of balances is completed regularly and as a result the Group's exposure to losses is limited.

With respect to the credit risk exposure of other financial assets, namely, due from related parties, bank deposits and trade and other receivables, the maximum credit risk of the Group is limited to their carrying values, in case there is a failure of the other party to meet its obligation.

The summary of financial assets subject to credit risk is detailed below;

	2019 SR 000	2018 SR 000
Cash and cash equivalents and short term deposits	3,950,020	4,903,491
Trade receivable, net	3,226,676	4,015,337
Other assets	754,850	725,540
Total	**7,931,546**	**9,644,368**

Commission Rate Risk

Commission Rate Risk is associated with a change in the commission rate available when renegotiating financial instruments that are influenced by the current global financial market conditions. The Group is exposed to commission rate risk with respect to its floating commission covenants agreed for its Islamic Murabaha (revolving credit) facilities obtained from local banks.

The short term revolving borrowings' rates are renegotiated at every renewal proposal to achieve the best possible commission rate to reflect the given financial credentials and related risk perception of the Group.

The Group has a specific shariah' complaint commission rate swap contract to manage its commission rate risk. The Group's international borrowing commission rates are primarily based on LIBOR and its local borrowings are based on SAIBOR. Hence the commission rate exposure of the Group is variable according to the changes in the LIBOR & SAIBOR.

The commission rate sensitivity analysis is performed based on the commission rate exposure of the Group for floating rate liabilities outstanding at the reporting date. The calculations are done on floating commission rates assuming the liabilities outstanding for a whole year as at the reporting date.

During the period under review the average rate of 3 months LIBOR varied between 2.09% and 2.34% (2.39% and 2.82% for 2018) and SAIBOR varied between 2.36% and 2.71% (2.73% and 2.98% for 2018).

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The sensitivity of commission rate variance on the Group's external borrowings which affects the consolidated financial statements of the Group is shown below:

	2019 SR 000	2018 SR 000
+ 25 basis points	4,581	3,534
- 25 basis points	(4,581)	(3,534)

The net profit of the Group for the reported period would have been affected by the above amount as a result of such changes in floating commission rates. If there is any capitalisation of borrowing costs directly attributed to projects in progress, there would be timing differences on such an impact to the Group's current profit and loss account and the current impact would be nil as there is no capitalisation for the current period and historically, the management capitalised approximately 10% of borrowing costs to projects in progress as explained in note 2.9.

Liquidity Risk

Liquidity Risk can result from a difficulty to meet the financial commitments and obligations of the Group as per the agreed terms and covenants.

To mitigate the liquidity risk and associated losses of business and brand value opportunities; the Group, where possible, keeps sufficient liquid assets in all business conditions. The Group refrains from funding its long term capital requirements through short term borrowings and related party current account transactions. Currently the long term projects are funded from long term or revolving borrowings only. The Group also has a dynamic cash flow assessment policy and system by which it can estimate and plan the maturities as well as required resources to meet such obligations.

The total weighted average effective annual commission rate for the period ended 31 December 2019 is 6.85% (31 December 2018: 6.88%)

See notes 12 and 14 for further details.

The maturity profile of financial liabilities of the group with undiscounted gross cash flows for the remaining contractual maturities for both principal and interest, wherever applicable, as at 31 December 2019 and 31 December 2018 are as follows:

31 December 2019	Within 3 Months SR 000	3 months to 1 year SR 000	1 year to 2 years SR 000	3 years to 5 years SR 000	Above 5 years SR 000	No fixed maturity SR 000	Total SR 000
Financial Liabilities							
Islamic borrowings	389,872	496,074	600,615	5,451,595	2,935,556	-	9,873,712
End of service indemnities	-	-	-	-	-	21,614	21,614
Trade payables and others	84,325	94,134	-	-	-	620,320	798,779
Total	**474,197**	**590,208**	**600,615**	**5,451,595**	**2,935,556**	**641,934**	**10,694,105**

31 December 2018	Within 3 Months SR 000	3 months to 1 year SR 000	1 year to 2 years SR 000	3 years to 5 years SR 000	Above 5 years SR 000	No fixed maturity SR 000	Total SR 000
Financial Liabilities							
Islamic borrowings	157,911	2,089,981	669,006	4,955,043	198,062	-	8,070,003
End of service indemnities	-	-	-	-	-	19,011	19,011
Trade payables and others	32,610	63,511	-	-	-	789,234	885,355
Total	**190,521**	**2,153,492**	**669,006**	**4,955,043**	**198,062**	**808,245**	**8,974,369**

Foreign Currency Risk

Foreign Currency Risk is associated with the change in the value of the carrying value in the functional currency due to the variation of the underlying foreign currency obligation or right by way of transaction or translation reasons. The functional currency of the Group is the Saudi Riyal that is pegged against the US Dollar with a fixed exchange rate of 3.75 Saudi Riyals per US Dollar. Since transactions, other than US Dollars, are negligible; the Group does not assume any significant foreign currency risk.

COMMITMENTS AND CONTIGENCIES

To complete the long term construction and development of investment and development properties, the Group have committed to a number of contractual arrangements and agreements. Such contracts are cancellable at the Group's discretion with no penalties. The estimated uncompleted contracts outstanding as at 31 December 2019 amounts to SR 285 million (31 December 2018: SR 62 million) and performance commitment through a bank guarantee for SR 74 million against receivable collected (31 December 2018: SR 74 million).

These commitments are expected to be settled within the duration of the projects in progress and shall be funded through prospective property sales and external borrowings, if necessary.

During the normal course of business there are general litigations and legal claims. Management takes legal advice as to the likelihood of success of claims and no provision is made when the action is unlikely to succeed.

At 31 December 2019, there were no significant claims notified (31 December 2018: None).

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on 24 March 2020.

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