

**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 2016**

**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 2016**

INDEX	PAGES
Independent auditor's report	1 – 2
Consolidated statement of financial position	3
Consolidated statement of profit or loss and other comprehensive income	4
Consolidated statement of changes in shareholders' equity	5
Consolidated statement of cash flows	6
Notes to the consolidated financial statements	7 – 45



January 16, 2017

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

Dar Al Arkan Real Estate Development Company

(A Saudi Joint Stock Company)

Riyadh – Kingdom of Saudi Arabia

We have audited the accompanying consolidated financial statements of **Dar Al Arkan Real Estate Development Company** (A Saudi joint stock company) and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statement of Profit or Loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Managements responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



AlKharashi & Co.

Certified Accountants And Auditors

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of a matter

This report is issued in conformity with International Financial Reporting Standards for management purposes and should not be considered as replacement to the company's consolidated financial statements issued in accordance with Generally Accepted Accounting Principles in the Kingdom of Saudi Arabia.

For Al-Kharashi Co.

Suliman Al-Kharashi
License No. (91)



DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Notes	2016 SR 000	2015 SR 000
ASSETS			
Non-current assets			
Investment properties, net	5	3,424,778	3,501,637
Long-term development properties	6	16,721,061	16,597,241
Property and equipment, net	7&22a	66,131	68,416
Investments in associates and joint ventures	8	790,585	776,207
Other assets	9	828	-
Total non-current assets		21,003,383	20,943,501
Current assets			
Short-term development properties	6	317,325	437,185
Trade receivables and others	10	2,582,978	2,923,496
Cash and cash equivalents	11	582,088	1,001,061
Total current assets		3,482,391	4,361,742
TOTAL ASSETS		24,485,774	25,305,243
LIABILITIES AND SHAREHOLDERS' EQUITY			
Non-current liabilities			
Borrowing -long-term maturity portion	12	4,890,375	4,760,617
End of service indemnities	13	25,682	20,973
Total non-current liabilities		4,916,057	4,781,590
Current liabilities			
Borrowings-short-term maturity portion	12	324,995	1,531,945
Trade payables and others	14	529,721	509,278
Zakat payables	15c	537,494	555,757
Total current liabilities		1,392,210	2,596,980
Total liabilities		6,308,267	7,378,570
Shareholders' Equity			
Share capital	16	10,800,000	10,800,000
Statutory reserve		1,003,383	978,300
Retained earnings		6,374,124	6,148,373
Total shareholders' equity		18,177,507	17,926,673
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		24,485,774	25,305,243



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 2016

	Notes	2016 SR 000	2015 SR 000
Revenue	17	1,870,229	2,211,349
Cost of sales	18	(1,078,286)	(1,228,117)
GROSS PROFIT		791,943	983,232
Operating expenses:			
General and administrative expenses	19	(160,028)	(207,831)
OPERATING PROFIT		631,915	775,401
Finance costs	20	(385,984)	(420,794)
Other income, net		(32)	1,075
Share of net profits from associates and joint ventures	8 a	12,878	12,800
PROFIT BEFORE ZAKAT		258,777	368,482
Zakat and tax expense	15c	(7,943)	(9,325)
NET PROFIT FOR THE YEAR		250,834	359,157
Other comprehensive income:			
Other comprehensive income for the year		-	-
Total comprehensive income for the year		250,834	359,157
Total comprehensive income attributable to:			
Dar Al Arkan shareholders		250,834	359,157
Earnings per share (in Saudi Riyal)			
Basic and diluted	21	0.23	0.33



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 2016

	Share capital SR 000	Statutory reserve SR 000	Retained earnings SR 000	Total equity SR 000
2016				
Balance as at 1 January 2016	10,800,000	978,300	6,148,373	17,926,673
Transfer to statutory reserve		25,083	(25,083)	-
Net profit for the year	-	-	250,834	250,834
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	250,834	250,834
Balance as at 31 December 2016	10,800,000	1,003,383	6,374,124	18,177,507
2015				
Balance as at 1 January 2015	10,800,000	942,384	5,825,132	17,567,516
Transfer to statutory reserve		35,916	(35,916)	-
Net profit for the year	-	-	359,157	359,157
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	359,157	359,157
Balance as at 31 December 2015	10,800,000	978,300	6,148,373	17,926,673



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 CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 SR 000	2015 SR 000
OPERATING ACTIVITIES		
Profit before Zakat	258,777	368,482
Adjustment for:		
Depreciation	77,500	72,818
End of service indemnities	6,317	4,537
Provision for doubtful debts	1,000	3,804
Finance costs	385,984	420,794
Gain on disposal of property and equipment	-	(142)
Share of net profit from associates and joint ventures	(12,878)	(12,800)
Operating cash flows before movements in working capital	716,700	857,493
Development properties, net	(3,960)	71,169
Trade receivables and others	339,518	(362,682)
Other assets	(828)	-
Trade payables and others	20,443	(76,245)
Cash from operations	1,071,873	489,735
Finance costs	(353,536)	(384,801)
Zakat paid	(26,206)	(57,903)
End-of-service indemnities paid	(1,608)	(2,108)
NET CASH FROM OPERATING ACTIVITIES	690,523	44,923
INVESTING ACTIVITIES		
Investment properties	3,382	(3,411)
Investments in associates	(1,500)	-
Proceeds from disposal of property and equipment	-	142
Purchase of property and equipment	(1,738)	(730)
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	144	(3,999)
FINANCING ACTIVITIES		
Short term deposit with banks	-	1,175,000
Long term borrowings	(1,109,640)	(1,350,059)
NET CASH USED IN FINANCING ACTIVITIES	(1,109,640)	(175,059)
DECREASE IN CASH AND CASH EQUIVALENTS	(418,973)	(134,135)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	1,001,061	1,135,196
CASH AND CASH EQUIVALENTS, END OF THE YEAR	582,088	1,001,061



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

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. 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 – is a limited liability 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 PROJECTS COMPANY – is a limited liability company, a wholly owned subsidiary, company registered in Riyadh under the Commercial Registration No. 1010247583, dated 28/3/1429 H (corresponding to 5/4/2008 G). It operates in general construction of residential and commercial buildings (construction, maintenance, demolition and restructuring).

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.

THAWABIT INVESTMENT COMPANY– is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010275449, dated 30/10/1430 H (corresponding to 19/10/2009 G). It operates in Real Estate investments and development.

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 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.

**DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), consistent with the Group's accounting policies.

These consolidated financial statements are presented in Saudi Riyals (SR), which is the Group's functional currency.

2.2 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Standards and interpretations effective in the current year

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 2016.

IFRS 5	Amendments	- Changes in methods of disposal for non-current assets held for sale and discontinued operations
IFRS 7	Amendments	- Financial Instruments - servicing contracts and applicability of the amendments to IFRS 7 to condensed interim financial statements
IFRS 9	Amendments	- Financial Instruments
IFRS 10	Amendments	- Consolidated financial statements - Investment Entities: Applying the Consolidation Exception
IFRS 11	Amendments	- Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations
IFRS 12	Amendments	- Disclosure of interests in other entities- Investment Entities: Applying the Consolidation Exception
IFRS 14		- Regulatory Deferral Accounts
IFRS 15		- Revenue from contracts with customers
IFRS 16		- Leases
IAS 1	Amendments	- Presentation of Financial Statements - Disclosure Initiative
IAS 16 & 38	Amendments	- Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 19	Amendments	- Employee Benefits - discount rate: regional market issue
IAS 27	Amendments	- Equity Method in Separate Financial Statements
IAS 28	Amendments	- Investments in Associates and Joint Ventures-Investment Entities: Applying the Consolidation Exception
IAS 34	Amendments	- Interim Financial Reporting - disclosure of information elsewhere in the interim financial report

Generally the adoption of these interpretations has not led to any changes in the Group's accounting policies and disclosures except for IFRS 15 and IFRS 16 where the existing accounting policy has been modified to incorporate the requirements of IFRS 15 and IFRS 16 with respect to revenue from contract with customers and lease arrangements retrospectively. IFRS 15 outlines a single comprehensive five step model for accounting revenues from contracts with customers. Group evaluated previously recognised customer agreements as part of IFRS 15 early adoption and in the absence of any unfulfilled continuing obligation; there was no impact to our consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

While IFRS 16 introduces a detailed single model for accounting leases where the lessor accounting remains substantially unchanged but for the lessees, the adoption would require to recognise new assets and liabilities with respect to applicable leases. The group evaluated its existing leases qualified for IFRS 16 and have created "right-of use assets" and "lease liability" with an insignificant onetime adjustment. Required modifications for the disclosures are provided in the consolidated financial statements.

Standards 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 2	Amendment	- Classification and Measurement of Share-based Payment Transactions
IFRS 10	Amendments	- Consolidated financial statements - Amended by Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRS 12	Annual improvements	- Disclosure of interest in other entities
IAS 7	Amendments	- Statement of Cash Flows – disclosure initiative
IAS 12	Amendments	- Income taxes - Recognition of Deferred Tax Assets for Unrealised Losses
IAS 28	Annual improvements	- Investments in Associates and Joint Ventures- Measuring an associate or joint venture at fair value
IAS 40	Amendments	- Transfer of investment property

2.3 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 principal accounting policies are set out below.

2.4 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 2016.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

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,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

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.

2.5 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

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.

2.6 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 period of the retirement/disposal except those that relate to sale and leaseback arrangements.

2.7 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

2.8 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.

2.9 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. All other borrowing costs are recognised as finance costs in the consolidated profit or loss in the period in which they are incurred.

2.10 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.

Trade receivables

Trade receivables are classified as loans and receivables and are initially recognised at fair value. They are subsequently measured at their amortised cost using the effective interest rate method less any provision for impairment. A provision for impairment is made where there is 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. An allowance for impairment is recognised when the carrying value of the receivable exceeds the present value of the future cash flow discounted using the original effective commission rate. The carrying value of the receivable is reduced through the use of an allowance account 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

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.

Islamic variable financial instruments

The Group designates certain hedging instruments, which include Islamic variable financial instruments in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as a cash flow hedges.

The Group initially recognises Islamic variable financial instruments as either a financial asset or a financial liability, at fair value, and subsequently re-measured to their fair value at the end of each reporting period. The accounting for changes in the fair value of an Islamic variable financial instrument depends on the intended use and the resulting designation of the Islamic variable financial instrument. The resulting gain or loss is recognised in the consolidated statement of profit or loss immediately, unless the Islamic variable financial instrument is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

For an Islamic variable financial instrument designated as a fair value hedge, the gain or loss is recognised in the consolidated statement of profit or loss in the period of change together with the offsetting loss or gain on the hedged item attributed to the risk being hedged. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

2.11 REVENUE RECOGNITION

Revenue represents the sale of properties, revenue from contract with customers and rental activities.

Sale of Properties

Properties developed and sold on completion or as is are recognised to the extent that it is probable that economic benefits will flow to the Group and significant risks and rewards of ownership have been transferred to the buyer, which is assessed to be at the time of legal completion of the sale or unconditional exchange. Revenue is measured at the fair value of consideration received.

Contract with customer

Properties developed and sold under a construction contract or agreement 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

2.12 ZAKAT AND TAX

Zakat and tax is calculated pursuant to Zakat Regulation in the Kingdom of Saudi Arabia and recognised in the respective subsidiaries statement or consolidated statement of profit or loss in each period. The provision is based on an estimate of Zakat and tax 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.

2.13 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.

2.14 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.

2.15 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.

2.16 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.

2.17 LEASING

Group as a lessor

Rentals receivable under operating 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 operating 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

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 at an appropriate 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.

An appropriate rate of depreciation and profit rate is applied on "right- of-use assets" and "lease liability" respectively. Such depreciation and interest is charged to the consolidated profit or loss as depreciation and finance charges.

In case of existing, short term, small value and cancellable operating 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.

3. 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 on sale of its properties when significant risks and rewards of ownership transfer to the buyer, which is assessed to be at the time of legal completion of the sale or unconditional exchange.

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 at the time the sale contract is signed.

With respect to residential and commercial projects, The Group typically receives an initial deposit on the signature of the sales contract and a final payment on delivery of the units. Revenue from the sale of these properties is only recognized when the completed property is delivered to the purchaser.

With respect to residential and commercial projects sold under a construction contract or agreement and the objective and the outcome of such contracts can be estimated reliably, the revenue and cost of such developments are recognised 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.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

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.

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 2016 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 comparables 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 of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

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 this 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.

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.

Below are the key assumptions the group used to estimate fair value of its investments assets:

	2016	2015
	Range	Range
Profit margin on carrying cost – development properties	46%	53%
Targeted IRR – development properties	8-12%	-
Estimated Capitalisation of yields – investment properties	5-7%	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

4 REPORTING SEGMENTS

Management has organised the Group into three segments for the purpose of reporting to the chief operating decision maker. Management develops its strategic planning and business model around these segments that consist of:

- Development Properties – the development of basic infrastructure on undeveloped land (“Land Projects”) and the development of residential and commercial projects and the sale of units on such projects (“Residential and Commercial Projects”).
- Investments – strategic investment in companies that management believes are complementary to the Group’s real estate development operations.
- 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.

The 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 2016 and 2015 was generated from the developed 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 operates exclusively in Saudi Arabia and all its revenues are derived from its portfolio of properties which the Group manages.

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

The segment wise revenue, gross margin, operating expenses, profit, assets and liabilities from sales of development properties (land, residential and commercial projects) and leasing of properties are presented below:

	Notes	2016	
		Sale of Developed Properties	Leasing of Properties
		SR 000	SR 000
SEGMENT WISE PROFIT & LOSS			Group Total
		SR 000	SR 000
Revenue		1,724,681	145,548
Cost of sales		(1,004,809)	(73,477)
GROSS PROFIT		719,872	72,071
Operating expenses:			
General and administrative expenses	19		(160,028)
OPERATING PROFIT			631,915
Finance costs	20		(385,984)
Other income, net			(32)
Share of net profit from associates and joint ventures	8 a		12,878
SEGMENT PROFIT FOR THE YEAR			258,777
SEGMENT WISE ASSETS & LIABILITIES			
TOTAL ASSETS		20,910,096	3,575,678
TOTAL LIABILITIES		6,229,186	79,081

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

	Notes	2015		
		Sale of Developed Properties	Leasing of Properties	Group Total
		SR 000	SR 000	SR 000
SEGMENT WISE PROFIT & LOSS				
Revenue		2,075,265	136,084	2,211,349
Cost of sales		(1,158,892)	(69,225)	(1,228,117)
GROSS PROFIT		916,373	66,859	983,232
Operating expenses:				
General and administrative expenses	19			(207,831)
OPERATING PROFIT				775,401
Finance costs	20			(420,794)
Other income, net				1,075
Share of net profit from associates and joint ventures	8 a			12,800
SEGMENT PROFIT FOR THE YEAR				368,482
SEGMENT WISE ASSETS & LIABILITIES				
TOTAL ASSETS		21,702,495	3,602,748	25,305,243
TOTAL LIABILITIES		7,335,316	43,254	7,378,570

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

5. INVESTMENT PROPERTIES, NET

The movement in investment properties during the year ended 31 December 2016 and 2015 is as follows:

	2016	2015
	SR 000	SR 000
COST		
At beginning of the year	3,717,560	3,714,149
Additions	(3,382)	3,411
At end of the year	3,714,178	3,717,560
ACCUMULATED DEPRECIATION		
At beginning of the year	215,923	146,698
Charged during the year	73,477	69,225
At end of the year	289,400	215,923
CARRYING AMOUNT AT THE END OF THE YEAR	3,424,778	3,501,637

Included within investment properties is land with an original cost of SR 578.1 million (31 December 2015: SR 578.1 million).

Fair value estimation:

Fair value of the investment properties are estimated by management by using income capitalisation method. 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 5-7% between residential and commercial leased properties to arrive the fair value estimated as below:

	2016	2015
	SR 000	SR 000
COST	3,424,778	3,501,637
ESTIMATED FAIR VALUE		
Estimated on rent yield of 5-7 % on Investment properties	3,596,000	3,656,000

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

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

6. DEVELOPMENT PROPERTIES

The movement in development properties, the principle operation of the Company, during the year ended 31 December 2016 and 2015 is summarised as follows:

31 DECEMBER 2016	2016			Total
	Short-term Developed land	Developed land	Projects under Developments	
	SR 000	SR 000	SR 000	SR 000
COST				
At beginning of the year	437,185	1,963,764	14,633,477	17,034,426
Additions during the year		25,000	983,769	1,008,769
Charged to cost of sales during the year	(119,860)	(407,322)	(477,627)	(1,004,809)
CARRYING AMOUNT AT THE END OF THE YEAR	317,325	1,581,442	15,139,619	17,038,386
Short- term development properties				317,325
Long-term development properties				16,721,061
31 DECEMBER 2015				Total
	Short-term Developed land	Developed land	Property Projects under develop- ment	
	SR 000	SR 000		SR 000
COST				
At beginning of the year	794,145	1,949,764	2,168,456	17,105,595
Additions during the year	-	14,000		1,073,723
Transfers during the year	-	-	(2,168,456)	2,168,456
Charged to cost of sales during the year	(356,960)			(801,932)
CARRYING AMOUNT AT THE END OF THE YEAR	437,185	1,963,764	-	17,034,426
Short- term development properties				437,185
Long-term development properties				16,597,241

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

Projects under development includes land worth SR 6.23 billion (31 December 2015: SR 5.98 billion), which represents the Group's share of co-ownership with third parties according to the contracts of land development. This further includes SR 364.5 million (31 December 2015: SR 364.5 million) of advance paid against procurement of land in a new project.

During the year ended 31 December 2016 the Group has capitalised Islamic borrowing costs amounting to SR nil (31 December 2015: nil) on qualifying assets. Islamic borrowing costs were capitalised at an annual weighted average capitalisation effective rate of 0% (31 December 2015: 0%).

Fair value estimation:

During the year 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 46% (31 December 2015 53%) 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 8-12% for development properties to arrive at the fair value estimate.

	2016			
	Short-term Developed land	Developed land	Projects under Developments	Total
	SR 000	SR 000	SR 000	SR 000
COST	317,325	1,581,442	15,139,619	17,038,386
ESTIMATED FAIR VALUE				
Estimated @ 46% margins on cost – Land	463,000	2,309,000	22,104,000	24,876,000
Estimated @ 8-12 % IRR – Land	701,000	2,983,000	25,080,000	28,764,000
Average fair value on land	582,000	2,646,000	23,592,000	26,820,000
Estimated fair value	582,000	2,646,000	23,592,000	26,820,000

	2015			
	Short-term Developed land	Developed land	Projects under Developments	Total
	SR 000	SR 000	SR 000	SR 000
COST	437,185	1,963,764	14,633,477	17,034,426
ESTIMATED FAIR VALUE				
Estimated @ 53% margins on cost – Land	-	-	-	27,764,000
Estimated fair value	-	-	-	27,764,000

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

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.

	<u>Increase</u>	<u>Decrease</u>
	SR 000	SR 000
Change in fair value on land		
10% change in comparable margins	1,703,000	(1,703,000)
1% change in IRR	1,981,000	(1,849,000)
Average change in fair value on land	1,842,000	(1,776,000)
 Change in fair value on Properties		
50 basis points change in capitalisation rate	331,000	(285,000)
Sensitivity impact on estimated fair value	2,173,000	(2,061,000)

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

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

7. PROPERTY AND EQUIPMENT, NET

2016	Land and buildings SR 000	Leasehold improvement SR 000	Vehicles SR 000	Machinery and tools SR 000	Office equipment SR 000	Total SR 000
COST						
Balance at 1 January 2016	109,145	19,037	8,447	13,509	41,446	191,584
Additions for the year	-	-	-	-	612	612
Balance at 31 December 2016	<u>109,145</u>	<u>19,037</u>	<u>8,447</u>	<u>13,509</u>	<u>42,058</u>	<u>192,196</u>
ACCUMULATED DEPRECIATION						
Balance at 1 January 2016	42,123	19,037	8,445	13,480	40,083	123,168
Depreciation for the year	3,016	-	-	27	623	3,666
Balance at 31 December 2016	<u>45,139</u>	<u>19,037</u>	<u>8,445</u>	<u>13,507</u>	<u>40,706</u>	<u>126,834</u>
CARRYING AMOUNT AT 31 DECEMBER 2016	<u>64,006</u>	<u>-</u>	<u>2</u>	<u>2</u>	<u>1,352</u>	<u>65,362</u>
2015						
COST						
Balance at 1 January 2015	109,145	19,037	9,136	13,536	40,718	191,572
Additions for the year	-	-	-	2	728	730
Disposal for the year	-	-	(689)	(29)	-	(718)
Balance at 31 December 2015	<u>109,145</u>	<u>19,037</u>	<u>8,447</u>	<u>13,509</u>	<u>41,446</u>	<u>191,584</u>
ACCUMULATED DEPRECIATION						
Balance at 1 January 2015	39,107	19,033	9,134	13,479	39,540	120,293
Depreciation for the year	3016	4	-	30	543	3,593
Disposal for the year	-	-	(689)	(29)	-	(718)
Balance at 31 December 2015	<u>42,123</u>	<u>19,037</u>	<u>8,445</u>	<u>13,480</u>	<u>40,083</u>	<u>123,168</u>
CARRYING AMOUNT AT 31 DECEMBER 2015	<u>67,022</u>	<u>-</u>	<u>2</u>	<u>29</u>	<u>1,363</u>	<u>68,416</u>

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

8. 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:

	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
Investments, beginning of year	776,207	763,407
Additions	1,500	-
Share of profit during the year	12,878	12,800
Investments, end of year	<u>790,585</u>	<u>776,207</u>

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

Name of the entity	<u>Amount</u>	<u>% of Holding</u>
	invested	
	SR 000	
Saudi Home Loans (SHL)	120,000	15%
Alkhair Capital Saudi Arabia (ACS)	102,000	34%
Khozam Real Estate Development Company (i) (KDC)	525,547	51%
Juman company	1,500	18%
Accumulated share of profits	<u>41,538</u>	
Balance, end of the year	<u>790,585</u>	

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

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

31 DECEMBER 2016	Juman	KDC	ACS	SHL	TOTAL
	SR 000	SR 000	SR 000	SR 000	SR 000
Total assets	-	542,547	254,996	4,119,969	4,917,512
Total liabilities	-	(34,134)	(24,006)	(2,778,254)	(2,836,394)
Net assets	-	508,413	230,990	1,341,715	2,081,118
Group's share of net assets	1,500	509,233	78,628	201,224	790,585
Total revenue for the year	-	-	24,472	116,040	140,512
Total profit for the year	-	(4,994)	(1,603)	71,648	65,051
Total cumulative earning at end of the year	-	(32,332)	(69,009)	541,715	440,374
Total cumulative earning at end of last year	-	(27,794)	(70,857)	444,620	345,969
Change for the year	-	(4,538)	1,848	97,095	94,405
Group's share of cumulative profit for the year	-	(2,314)	628	14,564	12,878

31 DECEMBER 2015	KDC	ACS	SHL	TOTAL
	SR 000	SR 000	SR 000	SR 000
Total assets	543,534	252,259	3,816,211	4,612,004
Total liabilities	(30,585)	(23,115)	(2,571,591)	(2,625,291)
Net assets	512,949	229,144	1,244,620	1,986,713
Group's share of net assets	511,605	77,909	186,693	776,207
Total revenue for the year	-	11,415	170,061	181,476
Total profit for the year	(4,438)	(1,509)	109,012	103,065
Total cumulative earning at end of the year	(27,794)	(70,857)	444,620	345,969
Total cumulative earning at end of last year	(23,536)	(64,597)	330,618	242,485
Change for the year	(4,258)	(6,260)	114,002	103,484
Group's share of cumulative profit/(loss) for the year	(2,172)	(2,128)	17,100	12,800

Details of transactions with associates and joint ventures are disclosed under note 23 "Related Party Transactions" of these consolidated financial statements.

- (i) The Group had invested 51% in Khozam Real Estate Development Company (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.

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

- (i) The KDC investment include SR 250 million as an exclusive right to participate in the Khozam project development and SR 276 million as capital contribution 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.
- (ii) During the year the group had invested 18% in Juman Company a limited liability company under incorporation for the real estate development and paid towards its initial capital requirement for the formation of the company. This entity has not started any operation.

9. OTHER ASSETS (DEFERRED CHARGES), NET

The movement during the year is as below:

	2016 SR 000	2015 SR 000
Balance, beginning of the year	-	-
Additions during the year	828	
Amortisation charge for the year	-	-
Balance, end of the year	828	-

10. TRADE RECEIVABLES AND OTHERS

	2016 SR 000	2015 SR 000
Trade receivables – net of allowances for doubtful debts of SR 19.02 million (31 December 2015: SR 18.02 million)	1,839,470	1,948,687
Advance payments to purchase land	697,190	944,627
Accrued revenue	2,208	-
Prepayments and others	43,247	29,378
Short term investment- trading (note 10c)	863	804
	2,582,978	2,923,496

The fair value of financial assets included above approximates the carrying amount. The maximum credit taken for sales is less than 90 days. No penalties 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 year for which the Group has not recognized an allowance for doubtful debts because there has not been a significant change in credit quality.

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

a) Ageing of trade receivables that are due but not impaired

	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
0-60 days	1,006,178	578,761
61-120 days	528,103	283,830
120-180 days	144,471	256,197
Above 180 days	160,718	829,899
Total	<u>1,839,470</u>	<u>1,948,687</u>

Trade receivables include about 92% (31 December 2015: 97%) receivables against land sales which are fully secured against such land parcels.

b) Movement in the allowance for doubtful debts

	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
Balance, beginning of the year	18,019	14,215
Allowance for the year	<u>1,000</u>	<u>3,804</u>
Balance, end of the year	<u>19,019</u>	<u>18,019</u>

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 debt and equity securities on behalf of the Group. The transaction during the year is detailed below:

	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
Balance, beginning of the year	804	3,181
Purchased / sold during the year	-	3,556
	<u>804</u>	<u>6,737</u>
Realised gains	59	330
Total	<u>863</u>	<u>7,067</u>
Transfers/withdrawals	-	(6,263)
Balance, end of the year	<u>863</u>	<u>804</u>

Investment includes SR 863 thousand as at 31 December 2016 (31 December 2015 SR nil) representing cash deposit held with the fund manager. The funds are expected to be invested in the subsequent periods.

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

11. CASH AND CASH EQUIVALENTS

	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
Cash in hand	786	963
Cash with bank	581,302	1,000,098
Total	<u><u>582,088</u></u>	<u><u>1,001,061</u></u>

12. LONG-TERM BORROWINGS

	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
Islamic Sukuk	3,187,500	4,312,500
Islamic Murabaha	2,093,025	2,077,435
	<u>5,280,525</u>	<u>6,389,935</u>
Less: Un-amortised transaction costs (note 12 b)	(65,155)	(97,373)
Borrowings end of the year	<u>5,215,370</u>	<u>6,292,562</u>
Less: Borrowing -short-term maturity portion	(324,995)	(1,531,945)
Borrowing -long-term maturity portion	<u><u>4,890,375</u></u>	<u><u>4,760,617</u></u>

a. Repayable as follows:

	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
Within one year	332,450	1,542,910
In the second year	2,033,700	299,450
In the third to fifth years inclusive	<u>2,914,375</u>	<u>4,547,575</u>
	<u><u>5,280,525</u></u>	<u><u>6,389,935</u></u>

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

b. Islamic borrowings transaction costs:

	2016	2015
	SR 000	SR 000
Balance, beginning of the year	97,373	107,790
Additions during the year	230	25,576
Amortisation charge for the year	(32,448)	(35,993)
Balance, end of the year	65,155	97,373

c. Analysis of borrowings:

This represents SR 3.2 billion of Islamic Sukuk comprising:

- 1) SR 1.69 billion (USD 450 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 5.75% and maturing in 2018.
- 2) SR 1.50 billion (USD 400 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 6.5% and maturing in 2019.

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 2016.

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 11 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	Short-term	Long-term
	SR 000	SR 000	SR 000
2016	65,000	65,000	-
2017	1,194,375	236,250	958,125
2020	546,650	16,200	530,450
2023	287,000	15,000	272,000
2027	65,000	65,000	-
TOTAL	2,158,025	397,450	1,760,575

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

The total weighted average effective annual commission rate for the year ended 31 December 2016 is 6.06% (31 December 2015: 5.5%)

The facility agreements include certain financial covenants, which the Group was in compliance with as at 31 December 2016.

13. 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 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:

	2016	2015
	SR 000	SR 000
Balance, beginning of the year	20,973	18,544
Charged to expenses during the year	6,317	4,537
Paid during the year	(1,608)	(2,108)
Balance, end of the year	25,682	20,973

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

A: Significant actuarial assumptions:

	2016	2015
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

	2016	2015
	SR 000	SR 000
Balance, beginning of the year	22,334	-
Net period benefit cost	4,820	-
Paid during the year	(1,608)	-
Balance, end of the year	25,546	22,334

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

C: Analysis of present value of obligation

	2016	2015
	SR 000	SR 000
Benefit obligation earned and accumulated to the date of financial position	18,937	16,703
Benefits attributed to future salary increase	6,609	5,632
Total	25,546	22,335

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:

	2016	2015
	SR 000	SR 000
Discount rate + 0.5%	24,311	21,225
Discount rate - 0.5%	26,883	23,535
Long term salary increase + 0.5%	26,941	23,478
Long term salary increase - 0.5%	24,246	21,266

14. TRADE PAYABLES AND OTHERS

	2016	2015
	SR 000	SR 000
Trade payables	173,457	173,433
Due to related parties (note 23b)	193,363	194,253
Accruals	62,286	67,401
Unpaid dividend	35,358	35,358
Lease liability (note 22b)	742	-
Unearned revenue	64,515	38,833
	529,721	509,278

Trade payables and others principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days (31 December 2015: 30 days).

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

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

15. ZAKAT AND TAX PAYABLE

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

	2016 SR 000	2015 SR 000
<u>Zakat base:</u>		
Equity	17,441,756	17,567,516
Provisions and other adjustments	2,980,955	2,919,451
Total Zakat base	20,422,711	20,486,967
<u>Deductions:</u>		
Total deduction after adjustment	(20,422,711)	(20,138,121)
Zakat base	-	348,846

b) *Adjusted net income for the year:*

	2016 SR 000	2015 SR 000
<u>Adjusted net income:</u>		
Income for the year before Zakat	244,801	373,019
Adjusted net income	244,801	373,019
Estimated Zakat and Tax provision for the year	7,943	9,325

c) *The movement in provision for Zakat and Tax:*

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

	For the year ended 31 December	
	2016 SR 000	2015 SR 000
Balance beginning of the year	555,757	604,335
Estimated Zakat and Tax for the year	7,943	9,325
Paid during the year	(26,206)	(57,903)
Estimated Zakat and Tax provision, end of the year	537,494	555,757

d) The Company has received the assessments from DZIT for the years 2003 to 2009. The Company has not received DZIT assessment for year 2010 and 2011. The company had filed the consolidated zakat return for years 2012, 2013, 2014 and 2015. The zakat return for the year 2016 is under filing process.

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

16. SHARE CAPITAL

	<u>2016</u> SR 000	<u>2015</u> SR 000
<i>Authorised:</i>		
1,080,000,000 ordinary shares of SR 10 each (31 December 2015: 1,080,000,000)	10,800,000	10,800,000
Issued and fully paid shares of SR 10 each		
At the start of the year	10,800,000	10,800,000
At the end of the year	<u>10,800,000</u>	<u>10,800,000</u>

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

17. REVENUE

	<u>2016</u> SR 000	<u>2015</u> SR 000
Sale of land	1,724,681	2,075,265
Leasing of properties	145,548	136,084
Total	<u>1,870,229</u>	<u>2,211,349</u>

18. COST OF SALES

	<u>2016</u> SR 000	<u>2015</u> SR 000
Land cost	1,004,809	1,158,892
Direct cost on leasing -- Depreciation	73,477	69,225
Total	<u>1,078,286</u>	<u>1,228,117</u>

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

19. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
General and administrative expenses	156,005	204,238
Depreciation (refer note 7 & 22a)	4,023	3,593
Total	<u>160,028</u>	<u>207,831</u>

20. FINANCE COSTS

	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
Charges on Sukuk	253,374	279,448
Charges on Islamic Murabaha	100,117	105,353
Charges on Lease liability (note 22b)	45	-
Amortisation of transaction costs (note 12b)	<u>32,448</u>	<u>35,993</u>
Total	<u>385,984</u>	<u>420,794</u>

21. EARNINGS PER SHARE

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

	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
Earnings		
For the purpose of basic earnings per share		
(Net profit for the year)	<u>250,834</u>	<u>359,157</u>
Number of shares	<u>Number</u>	<u>Number</u>
Weighted average number of ordinary shares		
For the purposes of basic earnings per share	<u>1,080,000,000</u>	<u>1,080,000,000</u>

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

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

22. OPERATING LEASE ARRANGEMENTS

A: GROUP AS LESSEE

a) Right of use assets

In accordance with IFRS 16, the group has created the right of use assets for the lease arrangements entered and unexpired as at the reporting date. The details and movements for this assets is summarised below and the depreciation charged to this asset is included in depreciation expenses.

	2016 SR 000	2015 SR 000
COST		
At beginning of the year	-	-
Additions for the year	1,126	-
At end of the year	1,126	-
ACCUMULATED DEPRECIATION		
At beginning of the year	-	-
Charged during the year	357	-
At end of the year	357	-
NET BOOK VALUE AT THE END OF THE YEAR	769	-

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

Summary adjustments

Under IFRS 16 requirements, the group identified summary adjustments amounting to SAR 152 thousand as a result of retrospective period adjustments for the unexpired operating leases. This amount has been fully recognised and charged in the current year as expenses in the consolidated profit or loss.

b) Lease liability

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

	2016 SR 000	2015 SR 000
LIABILITY		
At beginning of the year	-	-
Additions for the year	1,126	-
Finance cost	45	-
At end of the year	1,171	-
PAYMENTS		
At beginning of the year	-	-
Paid during the year	429	-
At end of the year	429	-
BALANCE AT THE END OF THE YEAR	742	-

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

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

c) Minimum lease payments

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

	2016 SR 000	2015 SR 000
Amounts due:		
Within one year	454	517
Between one and five years	889	1,048
After five years	-	-
	<u>1,343</u>	<u>1,565</u>

B: GROUP AS LESSOR

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

	2016 SR 000	2015 SR 000
Amounts Receivable:		
Within one year	55,163	68,723
Between one and five years	110,309	100,681
After five years	61,040	51,313
	<u>226,512</u>	<u>220,717</u>

23. RELATED PARTY TRANSACTIONS

The significant transactions and balances with related parties carried out at arm's length basis are as follows:

a) Due from related parties

In the prior years, the Group sold residential homes to individuals of which few sought financing from Saudi Home Loans, an associate to the Group. In such 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 non-performing receivables. The details of the transactions, included in trade receivable (refer note # 10), are as follows:

	2016 SR 000	2015 SR 000
Balance, beginning of the year	-	143
Sales/ debits during the year	-	-
Collections /adjustments	-	(143)
Balance, end of the year	<u>-</u>	<u>-</u>

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

b) Due to related parties

The Khozam Real Estate Development Company (KDC) management requested to invest excess cash balance of KDC with the group at a nominal profit. The details of the transactions, included in trade payable and other (refer note # 14), are as follows:

	2016	2015
	SR 000	SR 000
Balance, beginning of the year	194,253	195,612
Repayment of advances	(1,130)	(2,319)
Profit charged	240	960
Balance, end of the year	193,363	194,253

c) Compensation of key management personnel

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

	2016	2015
	SR 000	SR 000
Short-term benefits	9,257	12,904
End-of-service benefits	770	1,017
Remunerations and attendance fees to Board of Directors and Executive Committee	-	-
	10,027	13,921

d) Other related party transactions

(i) Bank Alkhair B.S.C

The Group engaged Bank Alkhair B.S.C, a non-associate entity, to provide general financial advisory, Shariah' compliance advises and management support for the recent international sukuk. The details of the transactions, included in trade payable under trade payable and others (refer note # 14), are as follows:

	2016	2015
	SR 000	SR 000
Balance, beginning of the year	115	115
Fees & expenses charged for the year	-	-
Amounts paid during the year	-	-
Balance, end of the year	115	115

For the year ended 31 December 2016 and 2015, 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.

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

24. 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 year ended 31 December 2016 was SR 2.22 million (31 December 2015: SR 1.77 million), and the outstanding contribution as at 31 December 2016 is SR 219 thousand (31 December 2015: SR 265 thousand).

25. 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 year was as follows:

	2016	2015
	SR 000	SR 000
Islamic borrowings	5,215,370	6,292,562
Cash and cash equivalents and short term deposits	(582,088)	(1,001,061)
Net debt	4,633,282	5,291,501
Shareholders' equity	18,177,507	17,926,673
Net debt to equity ratio	25%	30%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

26. 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
5. Islamic financial variable instrument

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.

As of the reporting date, the Group 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 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.

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

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 0.85% and 0.99% (0.31% and 0.62% for 2015) and SAIBOR varied between 2.03% and 2.39% (0.90% and 1.55% for 2015).

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

	<u>2016</u>	<u>2015</u>
	SR 000	SR 000
+ 25 basis points	<u>5,233</u>	<u>5,194</u>
- 25 basis points	<u>(5,233)</u>	<u>(5,194)</u>

The net profit of the Group for the reported year 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 year and historically, the management capitalises 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 year ended 31 December 2016 is 6.06% (31 December 2015: 5.5%)

See notes 12 and 14 for further details.

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

a) The maturity profile of assets, liabilities and equity as at 31 December 2016 and 2015 are as follows:

31 December 2016	Within 3 Months	3 months to 1 year	One year to 11 years	No fixed maturity	Total
SAR' 000					
Assets					
Investment properties, net	-	-	-	3,424,778	3,424,778
Development properties	-	317,325	-	16,721,061	17,038,386
Property and equipment, net	-	-	-	66,131	66,131
Investments in associates	-	-	-	790,585	790,585
Other assets	-	-	828	-	828
Trade receivables and others	-	2,582,978	-	-	2,582,978
Cash and cash equivalents	582,088	-	-	-	582,088
Total assets	582,088	2,900,303	828	21,002,555	24,485,774

Liabilities and equity					
Islamic borrowings	56,550	268,445	4,890,375	-	5,215,370
End of service indemnities	-	-	-	25,682	25,682
Trade payables and others	-	494,363	-	35,358	529,721
Current tax liabilities (Zakat)	-	537,494	-	-	537,494
Shareholders' Equity	-	-	-	18,177,507	18,177,507
Total liabilities and equity	56,550	1,300,302	4,890,375	18,238,547	24,485,774

31 December 2015	Within 3 Months	3 months to 1 year	One year to 12 years	No fixed maturity	Total
SAR' 000					
Assets					
Investment properties, net	-	-	-	3,501,637	3,501,637
Development properties	-	437,185	-	16,597,241	17,034,426
Property and equipment, net	-	-	-	68,416	68,416
Investments in associates	-	-	-	776,207	776,207
Trade receivables and others	-	2,923,496	-	-	2,923,496
Cash and cash equivalents	1,001,061	-	-	-	1,001,061
Total assets	1,001,061	3,360,681	-	20,943,501	25,305,243

Liabilities and equity					
Islamic borrowings	61,135	1,470,810	4,760,617	-	6,292,562
End of service indemnities	-	-	-	20,973	20,973
Trade payables and others	-	473,920	-	35,358	509,278
Current tax liabilities (Zakat)	-	555,757	-	-	555,757
Shareholders' Equity	-	-	-	17,926,673	17,926,673
Total liabilities and equity	61,135	2,500,487	4,760,617	17,983,004	25,305,243

**DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

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.

Islamic financial variable Instruments Risk

As part of its asset and liability management, the Group uses Islamic finance variable instruments for hedging its exposure to commission rate and cash flow risks. This is generally achieved by hedging specific transactions. The Group uses Islamic finance variable instruments primarily to manage exposures to foreign currency and commission rate risks. The Group's principal objective in holding Islamic finance variable instruments is to reduce the cash outflows associated with changes in foreign currency and fixed commission rates. The Group's Islamic finance variable instruments are exposed to credit risk to the extent of that counterparty's inability to meet the contractual obligations. The Group mitigates such risks by dealing with major financial institutions as its counterparties. The group Management does not expect any material losses or risk from the default of counterparties as the potential risk of such defaults is periodically monitored.

27. 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 2016 amounts to SR 49 million (31 December 2015: SR 49 million) and performance commitment through a bank guarantee for SR 74 million against receivable collected (31 December 2015: 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 2016, there were no significant claims notified (31 December 2015: None).

28. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on 16 January 2017.