

DAR AL ARKAN
REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S LIMITED REVIEW REPORT
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018

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

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S LIMITED REVIEW REPORT
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018**

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Al-Kharashi & Co.
Certified Accountants And Auditors

Riyadh Main office
P.O. Box 8890, Riyadh 11490
Telephone: +966 11 4784887
Fax: +966 11 4714324
Registration No. 536
www.al-kharashi.com.sa
www.auditoffice.com.sa

Jeddah Office
P.O. Box 5577, Jeddah 21522
Tel: +966 2 80014322
Fax: +966 2 80014324
www.auditoffice.com.sa
MAZARS



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CPA ASSOCIATES
INTERNATIONAL

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

**INDEPENDENT AUDITORS' REVIEW REPORT
ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

To the **Shareholders**

Dar Al Arkan Real Estate Development Company
(A Saudi Joint Stock Company)
Riyadh – Kingdom of Saudi Arabia

Introduction:

We have reviewed the accompanying interim condensed consolidated statement of financial position of **Dar Al Arkan Real Estate Development Company** (A Saudi joint stock company) (the "Company") and its subsidiaries (collectively referred to as the "Group") as at March 31, 2018, and the related interim condensed consolidated statements of profit or loss and the other comprehensive income, changes of shareholders' equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Company's management is responsible for the preparation and presentation of these Interim condensed consolidated financial statements in accordance with International Accounting Standard No. 34 "Interim Financial Reporting" endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review:

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

Conclusion:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard No. 34 endorsed in the Kingdom of Saudi Arabia.

For Al-Kharashi Co.

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



14 Sha'ban 1439 H
30 April 2018

For Mohammed Al-hajj & Co.

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



DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 31 MARCH 2018

	Notes	31 March 2018 (Unaudited) SR 000	31 December 2017 (Audited) SR 000
ASSETS			
Non-current assets			
Investment properties, net	5	3,272,470	3,290,010
Long-term development properties	6	12,814,180	14,751,565
Property and equipment, net	7&22a	78,500	70,925
Investments in associates and joint ventures	8	812,812	811,189
Other assets	9	2,724	1,950
Total non-current assets		16,980,686	18,925,639
Current assets			
Short-term development properties	6	118,072	122,675
Trade receivables and others	10	6,096,988	4,033,325
Cash and cash equivalents	11	5,240,498	3,159,666
Total current assets		11,455,558	7,315,666
TOTAL ASSETS		28,436,244	26,241,305
LIABILITIES AND SHAREHOLDERS' EQUITY			
Non-current liabilities			
Borrowing -long-term maturity portion	12	6,484,759	4,720,334
End of service indemnities	13	21,702	21,961
Total non-current liabilities		6,506,461	4,742,295
Current liabilities			
Borrowings-short-term maturity portion	12	1,680,961	1,678,648
Trade payables and others	14	625,994	537,142
Zakat provision	15c	558,160	549,670
Total current liabilities		2,865,115	2,765,460
Total liabilities		9,371,576	7,507,755
Shareholders' Equity			
Share capital	16	10,800,000	10,800,000
Statutory reserve		1,058,720	1,058,720
Retained earnings		7,205,948	6,874,830
Total shareholders' equity		19,064,668	18,733,550
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		28,436,244	26,241,305




Managing Director


Chief Financial Officer

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

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018

	Notes	Three-month period ended	
		31 March 2018 (Unaudited) SR 000	31 March 2017 (Unaudited) SR 000
Revenue	17	2,793,913	360,329
Cost of revenue	18	(2,319,302)	(224,636)
GROSS PROFIT		474,611	135,693
Operating expenses:			
General and administrative expenses	19	(38,164)	(38,498)
OPERATING PROFIT		436,447	97,195
Finance costs	20	(122,545)	(88,408)
Other income, net		24,083	22
Share of net profits from associates and joint ventures	8 a	1,623	3,824
PROFIT BEFORE ZAKAT		339,608	12,633
Zakat provisions	15b	(8,490)	(500)
NET PROFIT FOR THE PERIOD		331,118	12,133
Other comprehensive income:			
Total comprehensive income for the period		331,118	12,133
Total comprehensive income attributable to:			
Dar Al Arkan shareholders		331,118	12,133
Earnings per share (in Saudi Riyal)			
Basic and diluted		0.31	0.01


Managing Director




Chief Financial Officer

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018

	Share capital SR 000	Statutory reserve SR 000	Retained earnings SR 000	Total equity SR 000
2018				
Balance as at 1 January 2018	10,800,000	1,058,720	6,874,830	18,733,550
Net profit for the period	-	-	331,118	331,118
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	331,118	331,118
Balance as at 31 March 2018	<u>10,800,000</u>	<u>1,058,720</u>	<u>7,205,948</u>	<u>19,064,668</u>
2017				
Balance as at 1 January 2017	10,800,000	1,003,383	6,374,124	18,177,507
Net profit for the period	-	-	12,133	12,133
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	12,133	12,133
Balance as at 31 March 2017	<u>10,800,000</u>	<u>1,003,383</u>	<u>6,386,257</u>	<u>18,189,640</u>


Managing Director




Chief Financial Officer

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018

	Three-month period ended	
	31 March 2018 (Unaudited) SR 000	31 March 2017 (Unaudited) SR 000
OPERATING ACTIVITIES		
Profit before Zakat	339,608	12,633
Adjustment for:		
Depreciation	19,356	19,917
End of service indemnities	1,236	743
Finance costs	122,545	88,408
Share of net profit from associates and joint ventures	(1,623)	(3,824)
Operating cash flows before movements in working capital	481,122	117,877
Development properties, net	1,941,988	69,303
Trade receivables and others	(2,063,663)	183,972
Other assets	(774)	-
Trade payables and others	88,852	62,188
Cash from operations	447,525	433,340
Finance costs paid	(112,795)	(81,948)
End-of-service indemnities paid	(1,495)	(583)
NET CASH FROM OPERATING ACTIVITIES	333,235	350,809
INVESTING ACTIVITIES		
Purchase of property and equipment	(9,391)	(1,748)
NET CASH USED IN / FROM INVESTING ACTIVITIES	(9,391)	(1,748)
FINANCING ACTIVITIES		
Long term borrowings	1,756,988	(56,579)
NET CASH FROM / USED IN FINANCING ACTIVITIES	1,756,988	(56,579)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,080,832	292,482
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	3,159,666	582,088
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	5,240,498	874,570


Managing Director




Chief Financial Officer

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018**

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 (REAL ESTATE) 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 PROPERTIES COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010521509, 22/6/1438 H (corresponding to 21/3/2017 G). It operates in Real Estate investments and developments, leasing and property management.

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (CONTINUED)**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements have been prepared in accordance with the International Accounting Standard No.34 "Interim Financial Reporting" and other standards and pronouncements endorsed by SOCPA and adopted in KSA, consistent with the Group's accounting policies.

These interim condensed 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 period

In the current period, 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 2018.

IFRS 15	clarification	- Revenue from Contracts with Customers
IAS 19	Amendment	- Plan Amendment, Curtailment or Settlement

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

IFRS 3 & 11	Annual improvements	- Definition of a Business and Accounting for Previously Held Interests
IFRS 9	Amendment	- Amendments regarding prepayment features with negative compensation and modifications of financial liabilities
IFRS 17	New standard	- Insurance Contract
IAS 12	Amendment	- clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

2.3 ACCOUNTING CONVENTION

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (CONTINUED)**

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 interim condensed consolidated financial statements of the Group consist of operations of the Company and entities controlled the Company or its Subsidiaries made up to 31 March 2018.

Subsidiaries

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

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

The excess of cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair value of identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in the interim condensed 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 interim condensed 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 interim condensed 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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (CONTINUED)**

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

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

Investment in joint operation

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

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

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

The Group accounts for the assets, liabilities, revenues and expenses associated with its interest in a joint operation in accordance with IFRSs applicable to the particular assets, liabilities, revenues and expenses. When the Group entity is a joint operator and the Group is involved with a sale or asset contribution to the joint operation, the profit and losses resulting from such transactions 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.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (CONTINUED)**

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 interim condensed consolidated profit or loss.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (CONTINUED)

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 interim condensed consolidated statement of financial position, the project is classified as short term development properties.

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 interim condensed 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 Interim condensed 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 interim condensed consolidated statement of financial position when the Group has become a party to the contractual provisions of the instrument.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (CONTINUED)**

Classification and measurement – financial assets

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

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

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

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

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

Trade receivables

Trade receivables are classified as 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 interim condensed 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 interim condensed 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 interim condensed consolidated balance sheet date. The unrealized and realized gains and losses from sale of held for trading investments are recorded in the interim condensed consolidated statement of income.

Financial liabilities

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

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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 interim condensed 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 interim condensed 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.

2.12 ZAKAT

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

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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 interim condensed 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.

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

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 interim condensed 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 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

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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 interim condensed 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 interim condensed 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 the balance is collected over a period as per the terms of the contract. Revenue from the sale of these properties is only recognized when the sales and purchase agreement is signed and 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 period the management estimates and average the costs of the entire developments, including infrastructure costs and overall construction and other directly attributable costs to arrive the total estimated cost of the project. These estimated costs are allocated to each project within the development and each unit within a project. These estimates are reviewed regularly on a profit per project basis and revised as necessary. Any significant change in

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these estimates may result in additional costs being recorded in future periods related to revenue recognised in a prior period.

Measurement of contract assets and trade receivables

The group management makes significant assumptions on the estimation of expected credit loss (ECL) in connection with contract assets and/or trade receivables which is assessed based on the terms of contract and evaluation is made where there is objective evidence, including customers with financial difficulties or in default on payments, possibilities of bankruptcy of the customer that amounts will not be recovered in accordance with original terms of the agreement. Based on such periodic assessment the Company recognise for full lifetime expected losses for all contract assets and/or all trade receivables with or without significant financing transaction and for lease receivables. For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit losses in accordance with IFRS 9.

Classification of properties

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

Subsequent transfer of Investment Properties

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

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

Carrying value of development properties

The Group's principal activity is currently the development and sale of land, residential and commercial property. Due to the nature of this activity, much of the development is speculative in nature. Accordingly, the interim condensed consolidated statement of financial position at 31 March 2018 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 interim condensed consolidated

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statement of financial position. A change of these estimates in the future could have an impact on the valuation of the development properties.

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

While estimating the fair value of an asset or a liability the group take into consideration of the assumptions that market participants would use when pricing the asset or liability for their best economic interest.

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

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

For the financial reporting purpose, The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities;

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

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

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

	2018	2017
	Range	Range
Profit margin on carrying cost –development properties	25% - 35%	33% - 37%
Targeted IRR –development properties	6-8%	7-10%
Estimated Capitalisation of yields- Investment properties	5-7%	5-7%

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 period ended 31 March 2018 and the period ended 31 March 2017 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.

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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	Three-month period ended 31 March 2018 (Unaudited)		
		Sale of Developed Properties SR 000	Leasing of Properties SR 000	Group Total SR 000
SEGMENT WISE PROFIT & LOSS				
Revenue		2,759,896	34,017	2,793,913
Cost of revenue		(2,301,762)	(17,540)	(2,319,302)
GROSS PROFIT		458,134	16,477	474,611
Operating expenses:				
General and administrative expenses	19			(38,164)
OPERATING PROFIT				436,447
Finance costs	20			(122,545)
Other income, net				24,084
Share of net profit from associates and joint ventures	8 a			1,623
SEGMENT PROFIT FOR THE PERIOD				339,608
SEGMENT WISE ASSETS & LIABILITIES				
TOTAL ASSETS		25,076,857	3,359,387	28,436,244
TOTAL LIABILITIES		9,318,468	53,108	9,371,576

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	Notes	Three-month period ended 31 March 2017		
		(Unaudited)		Group Total
		Sale of Developed Properties	Leasing of Properties	
		SR 000	SR 000	SR 000
SEGMENT WISE PROFIT & LOSS				
Revenue		321,511	38,818	360,329
Cost of sales		(205,792)	(18,844)	(224,636)
GROSS PROFIT		115,719	19,974	135,693
Operating expenses:				
General and administrative expenses	19			(38,498)
OPERATING PROFIT				97,195
Finance costs	20			(88,408)
Other income, net				22
Share of net profit from associates and joint ventures	8 a			3,324
SEGMENT PROFIT FOR THE PERIOD				12,633
SEGMENT WISE ASSETS & LIABILITIES				
TOTAL ASSETS		20,986,675	3,523,961	24,510,636
TOTAL LIABILITIES		6,262,334	58,662	6,320,996

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5. INVESTMENT PROPERTIES, NET

The movement in investment properties is as follows:

	Three-month period ended 31 March 2018 (Unaudited) SR 000	Year Ended 31 December 2017 (Audited) SR 000
COST		
At beginning of the period/year	3,637,179	3,714,178
Transfer to development properties	-	(76,999)
Additions	-	-
At end of the period/year	<u>3,637,179</u>	<u>3,637,179</u>
ACCUMULATED DEPRECIATION		
At beginning of the period/year	347,169	289,400
Transfer to development properties	-	(14,110)
Charged during the period/year	<u>17,540</u>	<u>71,879</u>
At end of the period/year	<u>364,709</u>	<u>347,169</u>
CARRYING AMOUNT AT THE END OF THE PERIOD/YEAR	<u>3,272,470</u>	<u>3,290,010</u>

Included within investment properties is land with an original cost of SR 578.1 million (31 December 2017: SR 578.1 million).

Fair value estimation:

Fair value of the investment properties are estimated by management by using income capitalisation method, the range of capitalisation rates are determined based on the nature and the designated use of the assets and various external valuation references for similar type of assets. 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:

	2018 SR 000	2017 SR 000
COST	<u>3,272,470</u>	<u>3,290,010</u>
ESTIMATED FAIR VALUE		
Estimated on rent yield of 5-7 % on Investment properties	<u>3,313,183</u>	<u>3,313,183</u>

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

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6. DEVELOPMENT PROPERTIES

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

	Three-month period ended 31 March 2018 (Unaudited)				
	Short-term Developed Projects	Short-term Developed land	Developed land	Projects under Developments	Total
	SR 000	SR 000	SR 000	SR 000	SR 000
COST					
At beginning of the period	49,227	73,448	775,030	13,976,535	14,874,240
Additions during the period	130	-	-	359,644	359,774
Transfer	-	-	-	-	-
Charged to cost of sales during the period	(4,733)	-	(512,433)	(1,784,596)	(2,301,762)
CARRYING AMOUNT AT THE END OF THE PERIOD	44,624	73,448	262,597	12,551,583	12,932,252
Short-term development properties					118,072
Long-term development properties					12,814,180

	Year ended 31 December 2017 (Audited)				
	Short-term Developed Projects	Short-term Developed land	Developed land	Projects under Developments	Total
	SR 000	SR 000	SR 000	SR 000	SR 000
COST					
At beginning of the period/year	-	317,325	1,581,442	15,139,619	17,038,386
Additions during the period/year	692	5,432	16,648	1,298,986	1,321,758
Transfer	62,889	-	-	-	62,889
Charged to cost of sales during the period/year	(14,354)	(249,309)	(823,060)	(2,462,070)	(3,548,793)
CARRYING AMOUNT AT THE END OF THE PERIOD/YEAR	49,227	73,448	775,030	13,976,535	14,874,240
Short-term development properties					122,675
Long-term development properties					14,751,565

Projects under development includes land worth SR 9.92 billion (31 December 2017: SR 6.63 billion), which represents the Group's share of co-ownership with third parties according to the contracts of land development.

During the period ended 31 March 2018 the Group has capitalised Islamic borrowing costs amounting to SR nil (31 December 2017: nil) on qualifying assets. Islamic borrowing costs were capitalised at an annual weighted average capitalisation effective rate of 0% (31 December 2017: 0%).

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Fair value estimation:

During the period the Group's management and directors conducted an internal review and valuation of the real estate portfolio of development properties which resulted in a fair value indicating an average uplift of 35% (31 December 2017 35%) 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 5-7% for development properties to arrive at the fair value estimate.

	Three-month period ended 31 March 2018 (Unaudited)				
	Short-term	Short-term		Projects	Total
	Developed	Developed	Developed	under	
	Project	land	land	Developments	
	SR 000	SR 000	SR 000	SR 000	SR 000
COST	44,624	73,448	262,597	12,551,583	12,932,252
ESTIMATED FAIR VALUE					
Estimated @ 30% margins on cost – Land	45,000	95,000	341,000	16,316,000	16,797,000
Estimated @ 5-7 % IRR – Land	45,000	145,000	407,000	19,255,000	19,852,000
Average fair value on land	45,000	120,000	374,000	17,785,000	18,324,000
Estimated fair value	45,000	120,000	374,000	17,700,000	18,239,000
	Year ended 31 December 2017 (Audited)				
	Short-term	Short-term		Projects	Total
	Developed	Developed	Developed	under	
	Project	land	land	Developments	
	SR 000	SR 000	SR 000	SR 000	SR 000
COST	49,227	73,448	775,030	13,976,535	14,874,240
ESTIMATED FAIR VALUE					
Estimated @ 35% margins on cost – Land	50,000	99,000	1,046,000	18,868,000	20,063,000
Estimated @ 5-7 % IRR – Land	50,000	151,000	1,390,000	21,628,000	23,219,000
Average fair value on land	50,000	125,000	1,218,000	20,248,000	21,641,000
Estimated fair value	50,000	125,000	1,210,000	20,240,000	21,625,000

Sensitivity in fair value estimation:

The estimated fair value of Group's investment properties and development properties can be impacted by the occurrence of interrelated unobservable inputs determined by existing market conditions. The impact of two unobservable inputs may not be off-setting each other; for example, an increase in capitalisation rate may off-set

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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	1,487,000	(1,487,000)
1% change in IRR	<u>1,838,000</u>	<u>(1,682,000)</u>
Average change in fair value on land	1,663,000	(1,584,000)
 Change in fair value on Properties		
50 basis points change in capitalisation rate	<u>257,000</u>	<u>(219,000)</u>
Sensitivity impact on estimated fair value	<u>1,920,000</u>	<u>(1,803,000)</u>

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

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7. PROPERTY AND EQUIPMENT, NET	Land and buildings	Leasehold improvement	Vehicles	Machinery and tools	Office equipment	Total
	SR 000	SR 000	SR 000	SR 000	SR 000	SR 000
31 MARCH 2018 (UNAUDITED)						
COST						
Balance at 1 January 2018	109,145	6,143	8,447	13,811	48,672	186,218
Additions for the period	2,977	1,071	-	2,173	3,170	9,391
Balance at 31 March 2018	<u>112,122</u>	<u>7,214</u>	<u>8,447</u>	<u>15,984</u>	<u>51,842</u>	<u>195,609</u>
ACCUMULATED DEPRECIATION						
Balance at 1 January 2018	48,155	6,024	8,445	13,530	41,624	117,778
Depreciation for the period	769	37	-	92	632	1,530
Balance at 31 March 2018	<u>48,924</u>	<u>6,061</u>	<u>8,445</u>	<u>13,622</u>	<u>42,256</u>	<u>119,308</u>
CARRYING AMOUNT AT 31 MARCH 2018	<u>63,198</u>	<u>1,153</u>	<u>2</u>	<u>2,362</u>	<u>9,586</u>	<u>76,301</u>
31 DECEMBER 2017 (AUDITED)						
COST						
Balance at 1 January 2017	109,145	19,037	8,447	13,509	42,058	192,196
Additions for the year	-	127	-	302	6,622	7,051
Transfer	-	(13,021)	-	-	(8)	(13,029)
Balance at 31 December 2017	<u>109,145</u>	<u>6,143</u>	<u>8,447</u>	<u>13,811</u>	<u>48,672</u>	<u>186,218</u>
ACCUMULATED DEPRECIATION						
Balance at 1 January 2017	45,139	19,097	8,445	13,507	40,706	126,834
Depreciation for the year	3,016	8	-	23	926	3,973
Transfer	-	(13,021)	-	-	(8)	(13,029)
Balance at 31 December 2017	<u>48,155</u>	<u>6,024</u>	<u>8,445</u>	<u>13,530</u>	<u>41,624</u>	<u>117,778</u>
CARRYING AMOUNT AT 31 DECEMBER 2017	<u>60,990</u>	<u>119</u>	<u>2</u>	<u>281</u>	<u>7,048</u>	<u>68,440</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (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:

	Three-month period ended 31 March 2018 (Unaudited) SR 000	Year Ended 31 December 2017 (Audited) SR 000
Investments, beginning of period/year	811,189	790,585
Additions	-	-
Share of profit during the period/year	1,623	20,604
Investments, end of period/year	<u>812,812</u>	<u>811,189</u>

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

Name of the entity	Amount Invested SR 000	% of Holding
Saudi Home Loans (SHL)	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>63,765</u>	
Balance, end of the period	<u>812,812</u>	

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

31 MARCH 2018 (UNAUDITED)	Juman	KDC	ACS	SHL	TOTAL
	SR 000	SR 000	SR 000	SR 000	SR 000
Total assets	-	541,859	291,161	4,419,734	5,252,754
Total liabilities	-	(36,696)	(38,373)	(2,968,197)	(3,043,266)
Net assets	-	505,163	252,788	1,451,537	2,209,488
Group's share of net assets	1,500	507,633	85,948	217,731	812,812
Total revenue for the period	-	-	5,544	28,042	33,586
Total profit for the period	-	29	(2,904)	15,315	12,440
Total cumulative earning at end of the period	-	(35,582)	(47,212)	651,537	568,743
Total cumulative earning at end of last period	-	(35,610)	(44,356)	634,340	554,374
Change for the period	-	28	(2,856)	17,197	14,369
Group's share of cumulative profit for the period	-	14	(971)	2,580	1,623
31 DECEMBER 2017 (AUDITED)	Juman	KDC	ACS	SHL	TOTAL
	SR 000	SR 000	SR 000	SR 000	SR 000
Total assets	-	541,828	287,876	4,285,906	5,115,610
Total liabilities	-	(36,693)	(32,232)	(2,851,565)	(2,920,490)
Net assets	-	505,135	255,644	1,434,341	2,195,120
Group's share of net assets	1,500	507,619	86,919	215,151	811,189
Total revenue for the year	-	-	59,535	156,195	215,730
Total profit for the year	-	(2,820)	22,369	91,486	111,035
Total cumulative earning at end of the year	-	(35,610)	(44,356)	634,340	554,374
Total cumulative earning at end of last year	-	(32,332)	(69,009)	541,715	440,374
Change for the year	-	(3,278)	24,653	92,625	114,000
Group's share of cumulative profit for the year	-	(1,672)	8,382	13,894	20,604

Details of transactions with associates and joint ventures are disclosed under note 23 "Related Party Transactions" of these interim condensed 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.

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

9. OTHER ASSETS (DEFERRED CHARGES), NET

The movement during the period is as below:

	Three-month period ended 31 March 2018 (Unaudited) SR 000	Year Ended 31 December 2017 (Audited) SR 000
Balance, beginning of the period/year	1,950	828
Additions during the period/year	774	1,122
Amortisation charge for the period/year	-	-
Balance, end of the period/year	<u>2,724</u>	<u>1,950</u>

10. TRADE RECEIVABLES AND OTHERS

	31 March 2018 (Unaudited) SR 000	31 December 2017 (Audited) SR 000
Trade receivables – net of allowances for doubtful debts of SR 19.02 million (31 December 2017: SR 19.02 million)	5,391,871	3,338,618
Advance payments to purchase land	559,670	559,670
Accrued revenue	4,624	2,219
Prepayments and others	139,960	131,955
Short term investment- trading (note 10c)	863	863
	<u>6,096,988</u>	<u>4,033,325</u>

The fair value of financial assets included above approximates the carrying amount. 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 period for which the Group has not recognized an allowance for doubtful debts because there has not been a significant change in credit quality.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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a) Ageing of trade receivables that are due but not impaired

	31 March 2018 (Unaudited) SR 000	31 December 2017 (Audited) SR 000
0-60 days	2,183,384	1,839,703
61-120 days	1,832,421	656,027
121-180 days	539,144	528,452
Above 180 days	836,922	314,436
Total	<u>5,391,871</u>	<u>3,338,618</u>

Ageing are from the date of invoice and the trade receivables include about 99% (31 December 2017: 98%) receivables against land and project sales which are fully secured against such land and project parcels.

b) Movement in the allowance for doubtful debts

	Three-month period ended 31 March 2018 (Unaudited) SR 000	Year Ended 31 December 2017 (Audited) SR 000
Balance, beginning of the period/year	19,019	19,019
Allowance for the period/year	-	-
Balance, end of the period/year	<u>19,019</u>	<u>19,019</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 period is detailed below:

	Three-month period ended 31 March 2018 (Unaudited) SR 000	Year Ended 31 December 2017 (Audited) SR 000
Balance, beginning of the period/year	863	863
Purchased / sold during the period/year	-	-
	<u>863</u>	<u>863</u>
Realised gains	-	-
Total	<u>863</u>	<u>863</u>
Transfers/w/withdrawals	-	-
Balance, end of the period/year	<u>863</u>	<u>863</u>

Investment includes SR 863 thousand as at 31 March 2018 (31 December 2017 SR 863 thousand) representing cash deposit held with the fund manager. The funds are expected to be invested in the subsequent periods.

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11. CASH AND CASH EQUIVALENTS

	31 March 2018 (Unaudited)	31 December 2017 (Audited)
	SR 000	SR 000
Cash in hand	1,231	1,307
Cash with bank	5,239,267	3,158,359
Total	5,240,498	3,159,666

12. LONG-TERM BORROWINGS

	31 March 2018 (Unaudited)	31 December 2017 (Audited)
	SR 000	SR 000
Islamic Sukuk	6,594,263	4,719,263
Islamic Murabaha	1,677,775	1,760,575
	8,272,038	6,479,838
Less: Un-amortised transaction costs (note 12 b)	(106,318)	(80,856)
Borrowings end of the period/year	8,165,720	6,398,982
Less: Borrowing -short-term maturity portion	(1,680,961)	(1,678,648)
Borrowing -long-term maturity portion	6,484,759	4,720,334

a. Repayable as follows:

	31 March 2018 (Unaudited)	31 December 2017 (Audited)
	SR 000	SR 000
Within one year	1,690,463	1,690,463
In the second year	1,872,450	1,859,325
In the third to fifth years inclusive	4,709,125	2,930,050
	8,272,038	6,479,838

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b. Islamic borrowings transaction costs:

	Three-month period ended 31 March 2018 (Unaudited) SR 000	Year Ended 31 December 2017 (Audited) SR 000
Balance, beginning of the period/year	80,856	65,155
Additions during the period/year	35,212	48,551
Amortisation charge for the period/year	(9,750)	(32,850)
Balance, end of the period/year	<u>106,318</u>	<u>80,856</u>

c. Analysis of borrowings:

This represents SR 6.94 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, of which SR 343.23 million (USD 91.53 million) bought back during 2017 resulting an outstanding of SR 1.35 billion (USD 358.47 million) as at 31 December 2017.
- 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.
- 3) SR 1.88 billion (USD 500 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 6.9% and maturing in 2022.
- 4) SR 1.88 billion (USD 500 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 6.9% and maturing in 2023.

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 March 2018.

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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 10 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	Short-term	Long-term
	Balance		
	SR 000	SR 000	SR 000
2020	879,375	315,000	564,375
2023	526,400	16,200	510,200
2027	272,000	15,000	257,000
TOTAL	<u>1,677,775</u>	<u>346,200</u>	<u>1,331,575</u>

The total weighted average effective annual commission rate for the period ended 31 March 2018 is 6.12% (31 December 2017: 6.95%)

The facility agreements include certain financial covenants, which the Group was in compliance with as at 31 March 2018.

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 of cessation of their employment, as defined by the conditions stated in the labour laws of the Kingdom of Saudi Arabia. Employees' end of service benefit plans are unfunded plans where the respective entities meet the benefit payment obligations as it falls due.

The movement of the obligation accrued is as follows:

	Three-month	Year Ended
	period ended	31 December 2017
	31 March 2018	
	(Unaudited)	(Audited)
	SR 000	SR 000
Balance, beginning of the period/year	21,961	25,682
Charged to expenses during the period/year	1,236	5,129
Re-measurement gain	-	(2,675)
Paid during the period/year	<u>(1,495)</u>	<u>(6,175)</u>
Balance, end of the period/year	<u>21,702</u>	<u>21,961</u>

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

The weighted average duration of the employee benefit obligation is 8.03 years for the year ended December 31, 2017 (31 December 2016: 9.67). The expected maturity analysis of undiscounted defined benefit obligation is as follows:

	31 March 2018 (Unaudited)	31 December 2017 (Audited)
		SR 000
Within one year	11%	2,286
In the second year	15%	3,781
Between third and fifth years	24%	5,490
Above five years	50%	10,025
	<u>100%</u>	<u>21,582</u>

14. TRADE PAYABLES AND OTHERS

	31 March 2018 (Unaudited)	31 December 2017 (Audited)
	SR 000	SR 000
Trade payables	183,795	173,352
Due to related parties (note 23a)	189,176	192,530
Accruals	174,155	89,730
Unpaid dividend	35,320	35,350
Lease liability (note 22b)	2,213	2,301
Unearned revenue	41,335	43,879
	<u>625,994</u>	<u>537,142</u>

Trade payables and others principally comprise amounts outstanding for trade purchases and on-going costs. The average credit period taken for trade purchases is 30 days (31 December 2017: 30 days).

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

15. ZAKAT PROVISIONS

a) The movement in provision for Zakat:

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

	Three-month period ended 31 March 2018 (Unaudited)	Year ended 31 December 2017 (Audited)
	SR 000	SR 000
Balance beginning of the period/year	549,670	537,494
Estimated Zakat for the period/year	8,490	14,443
Paid during the period/year	-	(2,267)
Estimated Zakat provision, end of the period/year	<u>558,160</u>	<u>549,670</u>

b) The Company has received the assessments from GAZT for the years 2003 to 2007. The company had filed the consolidated zakat return for years 2008 to 2016.

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16. SHARE CAPITAL

	31 March 2018 (Unaudited) SR 000	31 December 2017 (Audited) SR 000
<i>Authorised:</i>		
1,080,000,000 ordinary shares of SR 10 each	10,800,000	10,800,000
Issued and fully paid shares of SR 10 each		
At the start of the period/year	10,800,000	10,800,000
At the end of the period/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

	Three-month period ended	
	31 March 2018 (Unaudited) SR 000	31 March 2017 (Unaudited) SR 000
Sale of land	2,752,277	321,511
Sale of residential properties	7,619	-
Leasing of properties	34,017	38,818
Total	<u>2,793,913</u>	<u>360,329</u>

18. COST OF REVENUE

	Three-month period ended	
	31 March 2018 (Unaudited) SR 000	31 March 2017 (Unaudited) SR 000
Land cost	2,297,029	205,792
Residential properties-cost	4,733	-
Direct cost on leasing – Depreciation	17,540	18,844
Total	<u>2,319,302</u>	<u>224,636</u>

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19. GENERAL AND ADMINISTRATIVE EXPENSES

	Three-month period ended	
	31 March 2018 (Unaudited)	31 March 2017 (Unaudited)
	SR 000	SR 000
General and administrative expenses	36,348	37,425
Depreciation (refer note 7 & 22a)	1,816	1,073
Total	38,164	38,498

20. FINANCE COSTS

	Three-month period ended	
	31 March 2018 (Unaudited)	31 March 2017 (Unaudited)
	SR 000	SR 000
Charges on Sukuk	84,816	50,631
Charges on Islamic Murabaha	27,963	31,293
Charges on Lease liability (note 22b)	16	24
Amortisation of transaction costs (note 12b)	9,750	6,460
Total	122,545	88,408

21. EARNINGS PER SHARE

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

	Three-month period ended	
	31 March 2018 (Unaudited)	31 March 2017 (Unaudited)
	SR 000	SR 000
Earnings		
For the purpose of basic earnings per share (Net profit for the period)	331,118	12,133
Number of shares	Number	Number
Weighted average number of ordinary shares For the purposes of basic earnings per share	1,080,000,000	1,080,000,000

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

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22. OPERATING LEASE ARRANGEMENTS

A: GROUP AS LESSEE

a) Right of use assets

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

	Three-month period ended 31 March 2018 (Unaudited) SR 000	Year Ended 31 December 2017 (Audited) SR 000
COST		
At beginning of the period/year	3,668	1,126
Additions for the period/year	-	3,079
Transfer/ retirements	-	(537)
At end of the period/year	<u>3,668</u>	<u>3,668</u>
ACCUMULATED DEPRECIATION		
At beginning of the period/year	1,183	357
Charged during the period/year	286	923
Transfer/ retirements	-	(97)
At end of the period/year	<u>1,469</u>	<u>1,183</u>
NET BOOK VALUE AT THE END OF THE PERIOD/YEAR	<u>2,199</u>	<u>2,485</u>

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

b) Lease liability

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

	Three-month period ended 31 March 2018 (Unaudited) SR 000	Year Ended 31 December 2017 (Audited) SR 000
LIABILITY		
At beginning of the period/year	3,751	1,171
Additions for the period/year	-	3,079
Transfer/ retirements	-	(560)
Finance cost for the period/year	16	61
At end of the period/year	<u>3,767</u>	<u>3,751</u>
PAYMENTS		
At beginning of the period/year	1,450	429
Paid during the period/year	104	1,021
At end of the period/year	<u>1,554</u>	<u>1,450</u>
BALANCE AT THE END OF THE PERIOD/YEAR	<u>2,213</u>	<u>2,301</u>

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

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c) Minimum lease payments

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

	31 March 2018 (Unaudited) SR 000	31 December 2017 (Audited) SR 000
Amounts due:		
Within one year	1,025	1,025
Between one and five years	2,270	2,463
After five years	-	-
	<u>3,295</u>	<u>3,488</u>

B: GROUP AS LESSOR

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

	31 March 2018 (Unaudited) SR 000	31 December 2017 (Audited) SR 000
Amounts Receivable:		
Within one year	63,832	59,496
Between one and five years	165,527	145,604
After five years	85,251	29,782
	<u>314,610</u>	<u>234,882</u>

23. RELATED PARTY TRANSACTIONS

a) 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:

	Three-month period ended 31 March 2018 (Unaudited) SR 000	Year Ended 31 December 2017 (Audited) SR 000
Balance, beginning of the period/year	192,530	193,363
Repayment of advances for the period/year	(3,594)	(1,553)
Profit charged for the period/year	240	720
Balance, end of the period/year	<u>189,176</u>	<u>192,530</u>

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FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (CONTINUED)

b) Compensation of key management personnel

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

	Three-month period ended 31 March 2018 (Unaudited) SR 000	31 March 2017 (Unaudited) SR 000
Short-term benefits	741	2,315
End-of-service benefits	45	514
Remunerations and attendance fees to Board of Directors and Executive Committee	-	-
	786	2,829

c) 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:

	Three-month period ended 31 March 2018 (Unaudited) SR 000	Year Ended 31 December 2017 (Audited) SR 000
Balance, beginning of the period/year	-	115
Fees & expenses charged for the period/year	-	(115)
Amounts paid during the period/year	-	-
Balance, end of the period/year	-	-

(ii) Alkhair Capital Saudi Arabia

The Group engaged Alkhair Capital Saudi Arabia, an associate entity, to provide general financial advisory, representing and filing the documents on behalf of the Group for requirements with CMA and other statutory bodies, Shariah' compliance reviews and management support for the local and international borrowing including recent International sukuk Issuances and leasing/subleasing of properties. The details of the transactions, included in trade payable under trade payable and others (refer note # 14), are as follows:

	Three-month period ended 31 March 2018 (Unaudited) SR 000	Year Ended 31 December 2017 (Audited) SR 000
Fees and expenses on indirect engagement with group		
Alkhair Capital Dubai during the period/year	-	4,135
Amount paid during the period/year	-	(4,135)
Balance, end of the period/year	-	-

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(iii) Alkhair Capital Dubai Ltd.

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

	Three-month period ended 31 March 2018 (Unaudited) SR 000	Year Ended 31 December 2017 (Audited) SR 000
Balance, beginning of the period/year	897	-
Fees and expenses on indirect engagement with group Alkhair Capital Dubai during the period/year	1,445	897
Amount paid during the period/year	(897)	-
Balance, end of the period/year	1,445	897

For the three month period ended 31 March 2018 and the year ended 31 December 2017, 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.

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 interim condensed consolidated statement of profit or loss and comprehensive income for the period ended 31 March 2018 was SR 1.23million (31 March 2017: SR 0.74 million), and the outstanding contribution as at 31 March 2018 is SR 371 thousand (31 December 2017: SR 367 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (CONTINUED)

Gearing ratio

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

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

	31 March 2018 (Unaudited)	31 December 2017 (Audited)
	SR 000	SR 000
Islamic borrowings	8,165,720	6,398,982
Cash and cash equivalents and short term deposits	<u>(5,240,498)</u>	<u>(3,159,666)</u>
Net debt	<u>2,925,222</u>	<u>3,239,316</u>
Shareholders' equity	<u>19,064,668</u>	<u>18,733,550</u>
Net debt to equity ratio	<u>15%</u>	<u>17%</u>

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.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (CONTINUED)**

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

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

During the period under review the average rate of 3 months LIBOR varied between 1.69% and 2.32% (0.99% and 1.16% for 2017) and SAIBOR varied between 1.89% and 2.27% (1.86% and 2.08% for 2017).

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

	31 March 2018 (Unaudited)	31 December 2017 (Audited)
	SR 000	SR 000
+ 25 basis points	4,194	4,401
- 25 basis points	(4,194)	(4,401)

The net profit of the Group for the reported period would have been affected by the above amount as a result of such changes in floating commission rates. If there is any capitalisation of borrowing costs directly attributed to projects in progress, there would be timing differences on such an impact to the Group's current profit and loss account and the current impact would be nil as there is no capitalisation for the current period and historically, the management 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 period ended 31 March 2018 is 6.12% (31 December 2017: 6.95%)

See notes 12 and 14 for further details.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (CONTINUED)**

a) The maturity profile of assets, liabilities and equity as at 31 March 2018 and 31 December 2017 are as follows:

31 March 2018 (Unaudited)	Within 3 Months	3 months to 1 year	One year to 10 years	No fixed maturity	Total
	SR 000	SR 000	SR 000	SR 000	SR 000
Assets					
Investment properties, net	-	-	-	3,272,470	3,272,470
Development properties	-	118,072	-	12,814,180	12,932,252
Property and equipment, net	-	-	-	78,500	78,500
Investments in associates	-	-	-	812,812	812,812
Other assets	-	-	2,724	-	2,724
Trade receivables and others	-	6,096,988	-	-	6,096,988
Cash and cash equivalents	5,240,498	-	-	-	5,240,498
Total assets	5,240,498	6,215,060	2,724	16,977,962	28,436,244
Liabilities and equity					
Islamic borrowings	1,427,063	253,898	6,484,759	-	8,165,720
End of service indemnities	-	-	-	21,702	21,702
Trade payables and others	-	109,864	-	516,130	625,994
Zakat provisions	-	-	-	558,160	558,160
Shareholders' Equity	-	-	-	19,054,668	19,054,668
Total liabilities and equity	1,427,063	363,762	6,484,759	20,160,660	28,436,244
31 December 2017 (Audited)					
	Within 3 Months	3 months to 1 year	One year to 10 years	No fixed maturity	Total
	SR 000	SR 000	SR 000	SR 000	SR 000
Assets					
Investment properties, net	-	-	-	3,290,010	3,290,010
Development properties	-	122,675	-	14,751,565	14,874,240
Property and equipment, net	-	-	-	70,925	70,925
Investments in associates	-	-	-	811,189	811,189
Other assets	-	-	1,950	-	1,950
Trade receivables and others	-	4,033,325	-	-	4,033,325
Cash and cash equivalents	3,159,666	-	-	-	3,159,666
Total assets	3,159,666	4,156,000	1,950	18,923,689	26,241,305
Liabilities and equity					
Islamic borrowings	82,800	1,595,848	4,720,334	-	6,398,982
End of service indemnities	-	-	-	21,961	21,961
Trade payables and others	-	149,468	-	387,674	537,142
Zakat provisions	-	-	-	549,670	549,670
Shareholders' Equity	-	-	-	18,733,550	18,733,550
Total liabilities and equity	82,800	1,745,316	4,720,334	19,692,855	26,241,305

Foreign Currency Risk

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (CONTINUED)**

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 CONTINGENCIES

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 March 2018 amounts to SR 51 million (31 December 2017: SR 49 million) and performance commitment through a bank guarantee for SR 74 million against receivable collected (31 December 2017: 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 March 2018, there were no significant claims notified (31 December 2017: None).

28. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved by the board of directors and authorized for Issue on April 30, 2018.